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China

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CONTENTS

4 August 1993

INTERNATIONAL

GENERAL

| | |
|--|---|
| IMF Ranking Not Accurate [GUOJI SHANGBAO 24 Jun] | 1 |
|--|---|

UNITED STATES

| | |
|--|---|
| Assessment of Clinton's Foreign Affairs Strategy [SHIJIE ZHISHI 1 Jun] | 2 |
|--|---|

NORTHEAST ASIA

| | |
|---|---|
| ROK Presidential Election, Implications for Peninsula [GUOJI WENTI YANJIU 13 Apr] | 4 |
|---|---|

ECONOMIC

NATIONAL AFFAIRS, POLICY

| | |
|---|----|
| Ma Hong on Socialist Market Economy [GUANLI SHIJIE 24 Mar] | 11 |
| Advantages, Disadvantages of Joining GATT Viewed [JIAGE LILUN YU SHIJIAN 20 Apr] | 14 |
| GATT's Potential Impact on Domestic Prices, Remedies [JIAGE LILUN YU SHIJIAN 20 Apr] | 15 |
| International Economic Spying Alleged [JIANGSU JINGJI BAO 12 Jun] | 19 |
| Foreign Companies Engaging in Fraudulent Practices [SHANGHAI GONGYE JINGJI BAO 8 Jun] | 20 |

FINANCE, BANKING

| | |
|---|----|
| Development of Futures Markets Advocated [JINRONG SHIBAO 22 Jun] | 21 |
| Government's Financial Situation Deteriorating [Hong Kong CHIU-SHIH NIEN-TAI 1 May] | 23 |
| Steps To Implement Renminbi Convertibility Viewed [JINRONG SHIBAO 14 Jun] | 25 |
| Annual Tax Evasion Estimated at 100 Billion Yuan [ZHONGGUO XINXI BAO 21 May] | 27 |

SMALL-SCALE ENTERPRISES

| | |
|--|----|
| Private Businesses Flourish in Various Regions [JINRONG SHIBAO 22 May] | 31 |
|--|----|

FOREIGN TRADE, INVESTMENT

| | |
|--|----|
| Limitations on Trade With DPRK [GUOJI SHANGBAO 1 Jun] | 34 |
| Problems of Entrepot Trade Statistics Revisited [GUOJI SHANGBAO 25 May] | 35 |
| Clarification of Regulations on Agent System [GUOJI JINGMAO XIAOXI 14 May] | 35 |
| Anecdotal Information on Border Trade Problems [ZHONGGUO MAOCU BAO 13 May] | 36 |

TRANSPORTATION

| | |
|--|----|
| Autonomy for Civilian Airlines, Airports Urged [JINGJI GUANLI 5 May] | 38 |
| Decisionmaking for Shanghai Subway Discussed [XINWEN BAO 27 May] | 40 |

AGRICULTURE

| | |
|---|----|
| Helping Peasants Move to Market Economy [ZHONGGUO XINXI BAO 31 May] | 42 |
|---|----|

GENERAL

IMF Ranking Not Accurate

93CM0376A Beijing GUOJI SHANGBAO in Chinese
24 Jun 93 p 1

[Article by Li Zhaofen: "Developing China Still Needs International Support"]

[Text] The IMF has recently announced that it will no longer use the traditional method of calculating the values of countries' goods and services on the basis of the dollar exchange rates and will no longer compare countries on the basis of such a calculation method, and that instead it will use the "purchasing power parity" method which calculates the value of goods and services that can be purchased with a certain amount of the currency of a country, and which then compares the relevant situations in different countries. According to this new evaluation method, China is in the third place in the world in terms of economic strength, and has become the world's third strongest economic power next to only the United States and Japan. However, this does not accurately reflect China's actual situation, and represents overestimation of China's strength. In fact, China remains a developing country whose economy is not very developed, and has not yet all the strong economic capability needed to fight poverty.

Doubtless, the Chinese economy developed very rapidly during the 1980s. The quality of people's lives has been greatly improved. There have been marked changes in such social indexes as those of life expectancy, the child mortality rate, and education opportunities. Rural poverty has been greatly reduced. China has now basically resolved the issue of food and clothing. But, China's population and economic strength are seriously unbalanced. In 1992, China's gross national product [GNP] was less than \$400 billion, but China had a population of over 1.1 billion. Thus, the per capita GNP was only just over US\$300. Eradicating poverty is a common task facing the countries around the world, and remains an important issue facing China in the process of development in the future. In the past 40-plus years, especially during the early 1980s when China carried out rural reforms—including the introduction of the output-linked household contract responsibility system and the adjustment of prices of agricultural products, China's rural economy has grown rapidly, and the peasants' poverty has been markedly alleviated. As shown in a report by the State Statistical Bureau, according to calculations based on comparable prices, the number of people in poverty in rural China decreased from 125 million in 1985 to 85 million in 1990. In the 331 poverty-stricken counties receiving focused assistance from the state, the net rural per capita income increased from 208.6 yuan in 1985 to 377.7 yuan in 1991. The net per capita income has exceeded 400 yuan in 45 percent of the poverty-stricken counties, and exceeded 500 yuan in 21 percent of those counties. According to calculations based on comparable prices, in the 699 poverty-stricken

counties nationwide, the total value of rural social product increased—in 1991—by 70.9 percent over 1985, and the net rural per capita income reached 371 yuan in 1991, representing an increase of 55.4 percent over 1985. The economic development of the poverty-stricken regions has become an inseparable part of the economic development of the country and society as a whole.

Nevertheless, the causes of poverty are complicated, and it is impossible to eradicate poverty in one step. Overall economic growth will not automatically benefit everyone. And, rural economic reforms cannot solve the problems in development for all the regions. Because of historical, economic, social, geographical and other factors, economic development has been very uneven across the regions. Especially, the people remaining in poverty now are mainly concentrated in regions which lack natural resources and which have very unfavorable natural conditions. Thus, resolving the issue of poverty besetting those people has become a very difficult task.

Presently, the construction of a socialist market economy in China is just getting started. The situation of having low economic efficiency and irrational industrial structure in the production, construction, and circulation sectors has not been fundamentally changed. The foundation of agriculture is weak; the issue of the lagging behind of the development of infrastructure, basic industries, and the tertiary industry has not been resolved; and comprehensive national capabilities still need to be increased. In the future, the state still has to make great efforts to promote the reform and opening to the outside world, to accelerate the adjustment of industrial structure, and to accelerate the transformation of enterprises' operating mechanisms. While endeavouring to promote overall economic development, it is also necessary to strive to do a good job of promoting the economic development and opening up of the poverty-stricken regions.

China's fight against poverty is also part of the worldwide fight against poverty. As a developing country, China will for the most part rely on its own efforts in its work of alleviating poverty; but, it is still necessary that there are understanding and support from the international community, that there is a peaceful, stable international environment, that difficulties in the areas of international trade and capital are resolved and alleviated; that there is closer international cooperation, and that the developed countries assume greater international obligations. We earnestly hope that the IMF, World Bank, and other international organizations will play an important role in promoting economic reform and development in China, and, especially, play a part in helping China alleviate poverty and enhance the economic development of the poverty-stricken regions. This will be in line with China's policy of planning to enhance the development and construction in the Great Southwest region and the Great Northwest region in the 1990's. I believe that with the cooperation and support from the international community, China will surely make greater contributions to economic development and the eradication of poverty.

UNITED STATES

Assessment of Clinton's Foreign Affairs Strategy

93CM0344A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 1128, 1 Jun 93 pp 6-8

[Article by Qian Chunyuan (6929 2504 0337): "Clinton Hits Out in All Directions: Another 'Foreign Affairs President'?"]

[Text] I remember that, when running for president, Clinton followed public opinion, boldly criticizing Bush for being "a foreign policy president" and for "not caring about the American people." At that time he focused on postwar America's most serious economic recession, putting forward the loud and clear slogans of "change" and "revitalizing America," thereby winning the support of a plurality of the voters and defeating "the foreign policy president." After taking office he still said that he would, "like a laser beam," fix his eyes on economic problems, stay out of any changeable international situation, and concentrate on steering the economy to recovery. He also planned "to intervene as little as possible in foreign affairs," letting the National Security Group be responsible for them. However, after four short weeks Clinton was derided with the labels of "foreign policy president" and "Clinton, the internationalist."

Actually, Clinton's so-called concentration on domestic affairs and "little interference in foreign affairs" was impossible from the start. It was either claptrap to please the majority of American voters during the election, or it was just Clinton's preference. Because America became the only superpower after the end of the Cold War, it has widespread political and economic interests all over the globe. It is also absolutely unwilling to give up its "great ambition" to play the main role on the international stage. Therefore, he could not take an "isolationist" stance. Moreover, after the end of the Cold War the world is none too peaceful: nationality contradictions, racial conflicts, and border disputes have cropped up one after another. Under the circumstances in which the world economy is interdependent and there is a heightening of the mutual transfer nature of countries' interests and relations, America's position as the only superpower is faced with a severe challenge. To continue to seek influence in global affairs, Clinton has to be concerned with international affairs. Therefore, he has begun to talk a lot about "internal affairs and foreign affairs being indivisible" and "giving consideration to both internal and foreign affairs." In fact, he has been "hung up" on foreign affairs, and his involvement in diplomatic activity is not less than Bush's at the outset.

"Three Big Pillars" Gilded With Mr. Clinton's Colors

When Clinton and Secretary of State Christopher in many places talked about the new administration's ideas for foreign policy, they made "promoting America's economic security," "maintaining a powerful defense force," and encouraging world democratic revolution"

the three big pillars of foreign policy and gilded them with bright "Clinton colors."

Emphasizing That "Economic Security" Is the Root of "National Security"

Clinton thinks that the idea of national security must be renewed. He has said that America's "competitive strength in the world economy" will maintain America's security in the future. Thus he argues that "diplomacy must serve the economy," and that trade should be "the most important factor in the United States' security" and "an indivisible part" of its entire economic security. He would change the principle of the trade policy from "free trade" to "fair trade," and, through stimulating the export of goods and services, "create opportunities for high-income jobs," promote the growth of America's economy, and make the improvement of competitive strength an important goal of the United States' foreign policy. The point that "diplomacy must serve the economy" can be regarded as a natural extension of Clinton's main ideas on domestic affairs.

Practicing "Human Rights Diplomacy"

Clinton's foreign policy smacks strongly of "idealism" and ideology. He thinks political "democratization" and market liberalization are "guarantees for international peace and stability." Thus, promoting on the globe the United States' ideas of democracy, freedom, and human rights becomes "one of the central strategic goals" in American foreign policy. Christopher has said that America will not stint at "using all levers, including trade, economic and security aid, and debt relief" to promote "democratic progress" in Russia, Eastern Europe, and Third World countries, and "peaceful evolution" in China. In the United States' foreign policy there is also a tendency for it to develop from humanitarian aid to "humanitarian intervention," e.g., recently Clinton and Christopher have repeatedly said that they would take military action to suppress the conflict in Bosnia-Herzegovina.

Attaching Importance To Dealing With "New Security Challenges"

Clinton thinks that, after the end of the Cold War, the United States, "entered a new, extremely dangerous era" and faces many "new security challenges," e.g., the emergence of regional big powers; the proliferation of nuclear weapons, nuclear technology, and other weapons of mass destruction; drug trafficking; environmental pollution; and population expansion. Thus, the United States on the one hand must "maintain a powerful defense force," readjust its defense structure, and protect its "leadership role" in dealing with the new global security challenges. On the other hand, the United States must depend on "the common effort of all humankind," encourage other countries, the United Nations and other collective security organizations to participate more in "the containment strategy, international rescues, and protection of peace," and, with regard to the question of

environmental pollution and global population growth, take a completely different attitude than the Bush administration.

Very Long and Pressing Agenda

Since Clinton took power, he has filled out a long foreign affairs list:

Large-Scale Aid to Russia

The Clinton administration thinks that the struggle in the Russian parliament represented by Yeltsin and Khasbulatov is a political struggle between the "democratic reform faction" and the "hardline conservative faction," and that if progress in Russia's reform is halted there will be "disastrous consequences" for the West. Thus Clinton has put relations with Russia in first place on his foreign affairs agenda. At the critical point in the upheaval in Russia's political situation, Clinton rallied the Western countries to give Yeltsin "powerful political and moral support"; and he organized an aid-Russia international united front, and formulated an aid-Russia plan with its focus on "long-term policy" and "enabling the Russian people to get visible advantages." In foreign affairs, the United States is trying to heighten Yeltsin's status by letting Russia in certain international affairs play "a great power role." After Clinton took office, his first trip was to meet with Yeltsin in Vancouver on 4 April. The two sides issued the "Vancouver Declaration," which asserted that they would establish "a new relationship between security partners." On 26 April, after the Russian people's referendum, Clinton immediately telephoned his congratulations to Yeltsin. He also announced that the U.D. would accelerate the destruction of nuclear weapons and, with its Western allies, reevaluate the restrictions on exporting high technology to Russia. The purpose of these actions was to add weight to Yeltsin in his domestic political struggle.

Trying To End the Bosnia-Herzegovina Conflict

Clinton changed the Bush administration's approach to the Bosnia-Herzegovina conflict by engaging in "direct intervention." After taking the actions of making air drops and imposing a no-fly zone, on 26 April Clinton signed a presidential order freezing Serbian assets and strengthening the embargo and other severe trade restrictions on Serbia. He also sent Christopher to Western Europe and Russia to seek further military actions against the Serbians, including air raids on the Serbian weapon positions and the rescinding of the arms embargo on the Muslims. However, Britain, France, and other countries expressed misgivings about the United States' plan for military intervention, and the foreign ministers of the EC on 10 May rejected this plan. Shaposhnikov, commander in chief of the Armed Forces of the Commonwealth of Independent States, also expressed opposition. America's plan for military intervention could be aborted.

Promoting Progress on Middle East Peace

Clinton has made the restoration of Middle East peace talks a main objective of the United States' Middle East policy, saying that the United States must play "the role of an active formal partner." For this reason in February Christopher went to the Middle East to drum up support among all sides for reopening the ninth round of the peace talks between the Arabs and the Israelis. On 26 April the peace talks were finally resumed in Washington. On 12 May, when the talks became deadlocked, in order to bridge the differences between the Palestinians and the Israelis, the United States put forward a document giving autonomy to the Palestinian people in the occupied territories. This was the United States' most direct intervention since it became one of the two host countries for the Middle East peace talks. But the Palestinian side rejected this document, and the ninth round of Middle East peace talks did not obtain any results.

Starting To Resolve U.S.-Japanese, U.S.-European Trade Disputes

When dealing with foreign trade disputes, Clinton takes a hardline attitude. In April Christopher visited Japan and Prime Minister Miyazawa visited the United States, and the United States and Japan crossed swords face to face over the problem of the trade imbalance between the two sides. The United States tried "to beat up on Japan" to force it to open its markets and set the United States' share of Japan's motor vehicle, supercomputer, electronic products, and agricultural products markets. Miyazawa flatly refused to do so. On 30 April U.S. trade representative Kantor again accused Japan of engaging in "unfair trade practices" with the United States, and said the United States would take retaliatory measures. Friction between the United States and Europe over the questions of iron and steel, government-ordered goods, aviation agreements, and agricultural products is becoming stronger and stronger. In March, when Clinton held talks with French President Mitterrand, German Chancellor Kohl, and EC Chairman Delors, the stress was put on discussing trade problems, but there was a quite big difference in the two sides' positions. On 21 April Clinton finally announced some sanctions against the EC, and the U.S.-European trade war was intensified. The exacerbation of the friction between the United States and Japan and Europe is both an economic reality and a result of Clinton's emphasis on "economic security."

In addition, a series of foreign affairs problems—Cambodia's peace, Somalia's civil war, [North] Korea's announcement of its withdrawal from the nuclear non-proliferation treaty, giving China the most-favored nation (MFN) treatment—have also been put on the Clinton administration's foreign policy list.

Wide Gap Between Ideal and Real

Clinton's foreign affairs activity can be said to be quite colorful; however, because of the changes in the international situation and the existence and growth of

domestic contradictions, Clinton, in the course of implementing his foreign policy, has encountered one difficulty after another, and in his foreign affairs strategy there is a very wide gap between the ideal and the real.

It Is Difficult To Coordinate Domestic Affairs and Foreign Affairs

In his overseas actions Clinton must obtain the support of Congress and the public, and only by possessing a solid domestic political base can he be successful. But observers have discovered that Clinton still lacks a strong base, and his coordination of domestic and foreign relations is poor. First of all, Clinton's plan to stimulate the economy within a short period of time was thwarted by Congress, and his "honeymoon" with Congress was brief. This was a head-on blow to his entire strategic doctrine. Next, because the economic recovery is weak, Clinton broke his promise during the election campaign not to increase taxes, and his support in public opinion polls fell to about 50 percent, which is the lowest of the recent presidents in the hundred days after taking office. A total of 71 percent of the American public thinks that the country is still "on the wrong track." Some people think that Clinton is in danger of following the same old disastrous road as Bush in being a professional in foreign affairs and an amateur in internal affairs. The unfavorable domestic climate causes layer upon layer of obstructions to Clinton's foreign policy decisions, e.g., large-scale aid to Russia and military intervention in the Bosnia-Herzegovina conflict.

Relative Weakening of National Strength and International Affairs

The contradiction between the relative decline of the United States' national strength and its demand to have the right to take the lead in international affairs is a reality that the United States now faces, and it, of course, will not change just because Clinton has assumed power. How to deal with this contradiction is still a knot that is hard to untie in the Clinton administration's foreign affairs activity.

Contradictions in Foreign Policy Itself

Now, the Clinton administration's foreign affairs activity are being carried out on a fairly large scale. Hitting out in all directions means dispersing one's strength. It wants to take a hardline attitude and resolve the trade disputes with Japan and Europe, and also wants to maintain the "partner relationship" with them, and, when trying to solve some international problems, seeks their support. It both wants to let Japan and Germany play "major political roles," and fears that they will insist on doing things in their own way and will break away from the United States' political and security strategy. It both wants to support Yeltsin—this Russian "standard-bearer" of democracy and freedom—and fears that his position is unstable and thus does not want to entrust the United States' Russian policy goals to him alone. It both wants the Arabs and the Israelis to resolve their dispute through the peace talks, and is unwilling to

offend Egypt, Saudi Arabia, Syria, and other Arab countries. It both wants, on the question of giving China MFN treatment, "to boldly raise the issues of human rights, nuclear proliferation, and trade barriers," and fears, because of this, adversely affecting the United States' economic and regional strategic interests. It both wants to use force in Bosnia-Herzegovina, and does not have sufficient reasons to persuade Congress, the public, and the international community to support, and even worries that it will get stuck in "another Vietnam War."

For Clinton, dealing with foreign affairs seems to have become a thankless task, and already more and more Americans hope that Clinton can "change the way of doing things" and put energy once more on "recovering the economy." It looks as if, for many hundreds of days in the future, Clinton's political career and his domestic and foreign policies will face even more strenuous tests.

NORTHEAST ASIA

ROK Presidential Election, Implications for Peninsula

93CM0324A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese No 48,
13 Apr 93 pp 15-20

[Article by Tao Bingwei and Wu Jingjing: "Kim Yong-sam's Assumption of the Presidency of the ROK and the Situation on the Korean Peninsula"]

[Text] Kim Yong-sam was elected president of the ROK [Republic of Korea] after going through fierce competitions and many hardships. He expressed his determination to build a "peaceful and prosperous new Korea." The birth of the first popularly elected civilian regime in the ROK marks the entry of the ROK's democratic politics into a new era. There are now, in existence, conditions which can enable Kim and his government to produce achievements. But, many difficulties remain to be overcome. Kim has a complete set of specific ideas on national reconciliation and unification. The Korean question is complex and difficult, and there can be progress toward solving the question only when the North and the South make joint efforts and when the international community takes energetic actions to promote the solution of the question.

On 25 February this year, Kim Yong-sam was sworn in to office in a ceremony featured with the theme "march forward together, and create a new Korea," thereby becoming the seventh president, and beginning the fourteenth presidential term, of the ROK, and ushering in the "Kim Yong-sam era." The next day, a cabinet headed by Prime Minister Hwang In-song was formed. There have been many analyses, by people inside and outside the ROK, of Kim Yong-sam's entry into the Blue House and the place and role of Kim's new government in the history of the ROK and in the evolution of the situation on the Korean Peninsula. This paper will not

try to compete with those analyses, but only provide some analysis and discussion of a few aspects of the event.

I. Fierce Competition, and Hard-Won Election Victory

On December 19 last year, the results of the ROK's presidential election were announced. According to the final tally of the ROK Central Electoral Commission, nationwide, 24,095,170 of the 29,422,658 voters participated in the voting, representing a voter-turnout rate of 81.9 percent. The numbers of votes the seven candidates received are indicated next in a numerically based order: Kim Yong-sam (president of the Democratic Liberal Party), 9,977,332 votes or 42 percent; Kim Tae-chung (first member and representative of the Democratic Party), 8,041,284 votes or 33.8 percent; Chong Chu-yong (first member and representative of the Unification National Party), 3,880,067 votes or 16.3 percent; Pak Chan-chong (leader of the New Policy Reform Party), 1,516,047 votes or 6.4 percent; Paek Ki-wan (independent), 238,648 votes or 1 percent; Kim Ok-hum (female, independent), 86,292 votes or 0.4 percent; and Lee Pyong-he (president of the Korean Justice Party), 35,739 votes or 0.1 percent. Kim Yong-sam did not just take the lead in the number of votes received, but also got a higher percentage of votes than the 35.9 percent of votes his predecessor No Tae-u received when he was elected president. Both major election opponents, Kim Tae-chung and Chong Chu-yong, conceded their defeat.

Despite all this, the fierceness of the election campaigns, the percentage of votes received and the voting patterns of different election districts also indicate the hard-won nature of Kim Yong-sam's election victory and his partial vulnerability in terms of constituency base. The sum of the votes for Kim Tae-chung and Chong Chu-yong will represent 50.1 percent of the total votes cast, a percentage higher than that received by Kim Yong-sam. Of course, because of political differences and other factors, it was not possible that they could join hands and make one of them the common candidate of the two parties. But, localism is deep-rooted in the ROK. The districts in which Kim Yong-sam got the largest numbers of votes were in his home region, that is, the so-called "south-of-the-mountain region" encompassing Kyongsang-namdo Province, Kyongsang-pukdo Province and Taechu. Meanwhile, Kim Tae-chung received overwhelming support in his home region, that is, the so-called "south-of-the-lake region" encompassing Chullanamdo Province, Chulla-pukdo Province, and Kwangju where he received 90.9 percent of the votes cast. Chong Chu-yong and Kim Yong-sam received equal shares of votes in Chong's home region, Kangwon-do Province. As Kim Yong-sam and Kim Tae-chung jointly organized an opposition party and had common supporters, the competition for votes in this election was especially fierce in the capital Seoul and Kyungki-do Province. As a result, Kim Yong-sam and Kim Tae-chung received 35.9 percent and 37.4 percent of the votes respectively in Seoul;

and 36.1 percent and 31.4 percent of the votes respectively in Kyungki-do Province. This outcome can be said to be a draw.

Throughout the entire election process, it was difficult for people of various social circles in the ROK to predict who would be elected president. As the members of the delegation of the Institute of International Studies of China, this author and another person visited the ROK on the eve of the election. During a bilateral symposium on the international situation jointly sponsored by our institute and its counterpart—the Institute of Foreign and Security Affairs of the Foreign Ministry of the ROK, we had discussions with celebrities of the various circles of the ROK. Our impression was that no one could give definitive predictions on who would be elected. High officials of the ROK Government once said that many voters were undecided on who to vote for, that the receiver of large numbers of "floating votes" would be known only after the election results were announced, and that therefore the "floating votes" would play a decisive role. Later developments testified to the correctness of this view.

On the other hand, Kim Yong-sam encountered difficulties inside the party right at the start of the election campaign. The Democratic Liberal Party of Korea was created in February 1990 because No Tae-u wanted to preserve the ruling party's dominant position in the National Assembly. The Democratic Liberal Party was the result of a merger of the Democratic Justice Party led by No, a group of Unification Democratic Party members led by Kim Yong-sam, and the New Democratic Republican Party led by Kim Chong-pil. Disharmonious situations occurred immediately after the merger of the three parties. After the ruling party lost in some districts in the new round of National Assembly elections in March last year, intra-party conflicts became more acute. Differences and conflicts within the party came into the open at the time of nominating the ruling party's presidential candidate. After No Tae-u resigned his position as president of the DLP, the core figures of the mainstream faction in the party—such as Kim Pok-tong (No Tae-u's brother-in-law), Pak Chol-on (No Tae-u's nephew), Pak Tae-chun (former first member of the DLP), and Lee Chong-chan (former leader of the young guard faction in the DLP)—gradually went to the Unification National Party led by Chong Chu-yong. Some members left the DLP to establish their own parties. As No Tae-u reshuffled his cabinet and formed a new cabinet to "ensure election fairness," it was once believed in the ROK that this indicated that No Tae-u would not support Kim Yong-sam's candidacy, and that the DLP would nominate a mainstream-faction figure for the presidency. Whatever No Tae-u's intentions might have been, the fact was that the fight over the presidential nomination did become white-hot at one time in the DLP, and did later result in the leaving of some key mainstream-faction figures. This created some difficulties for Kim Yong-sam on his way to the Blue House.

The above-discussed occurrences were not all the difficulties that Kim Yong-sam encountered in the presidential campaign, but were enough to demonstrate the hard-won nature of his election victory and the number of supporters he had.

II. As Conditions Are Favorable, There Will Be Achievements

During this presidential election in the ROK, Kim Yong-sam could see various factors unfavorable to his coming to power. But, he can see that there also exist many favorable factors, after he has come to power. Some unfavorable factors can also be eliminated or turned into favorable factors.

After decades of political turbulence, the ROK society has finally, to a large extent, come out of the shadow of military dictatorships or military regimes, and seen the first civilian government directly elected by the people. This marks the entry of the ROK's democratic politics into a new era. Many people in the ROK did not vote for Kim Yong-sam; but they support popularly elected civilian government in their heart, and entertain high expectations with regard to the performance of Kim Yong-sam and his government. This is doubtless very helpful to the Kim Yong-sam's performing of his presidential duties, a condition much more favorable than in the cases of the previous presidents.

Kim Yong-sam is also equipped with good personal qualities. He worked perseveringly for the democratization of the ROK society over a long period of time. Kim Yong-sam, in his campaign platform, advocated political stability. He intends not only to continue No Tae-u's policy of democratization, but also to follow his own policy so as to have further improvement. At present, the people of the ROK have strong democratization consciousness. On the issue of democratization, the people of the ROK maintain, in their mind, a criterion for evaluating the performance of the authorities, that is, listening to what they say and observing what they do, while giving importance to matching words with deeds. On the day of assuming office, Kim Yong-sam announced that the forbidden place—the scenic Inwang Hill near the Blue House—which had been blockaded and of which ordinary people had been denied entry for 25 years would be open to the public from then on. Then, he also opened the National Assembly Hall and the Library of the National Assembly to the public. On 6 March, the new president declared an amnesty to 41,886 prisoners, including 5,800 political prisoners. The minister Mun Ik-hwan who had been arrested and given a prison sentence because of his visit to North Korea was released on parole (before Kim Yong-sam came to power, the No Tae-u government had released—in a case of "special release on parole," Im Su-kyong, a student of Foreign Languages University of Seoul, and Father Mun Kyu-hyon arrested and given prison sentences because of their participation in the Thirteenth World Student and Youth Festival held in the North). The Kim Yong-sam government also substantially reorganized the National

Security Planning Agency, trimming the agency's operations of monitoring and examining domestic political activities, and deciding to discontinue the participation of the agency and its subordinate units in the internal political monitoring and examination meetings of the government agencies and institutions of higher education as well as their participation in the special policy meetings and actual work on handling mass demonstrations and political and social problems. In the future, the agency's main tasks will be to enhance the participation of the security planning departments of the provinces and cities in the national-security affairs meetings of foreign affairs agencies and the related work, and to carry out the work, on a larger scale, of collecting and analyzing information on North Korea and foreign countries (including economic and industrial information). On 8 March, Kim Yong-sam relieved two top army generals, Kim Chin-yong and So Wan-su of their duties, and appointed Kim Tong-chin and Kim To-yun, the least political of the generals, to take over as chief of the general staff of the army and as commander of the National Security Headquarters respectively. According to the public opinion in the ROK, Kim Yong-sam took this action—which shocked officials of the Ministry of National Defense and top generals of the military—to show that the president as the supreme commander of all the armed forces of the nation was determined and confident of being able to strengthen his direct control over the military and to eliminate the stubborn disease of military intervention and influence in politics through swift and radical reforms. According to a source, major shuffling of top generals and key military figures will continue. All this indicates that Kim Yong-sam will produce new achievements in democratizing the ROK and promoting civilian government, thereby, possibly winning more extensive popular support for himself.

At the swearing-in ceremony, Kim Yong-sam said that he would strive to cure the "Korean disease," that is, the loss of the willingness to work hard and to create the reversal of values and the loss of national confidence. He also pointed out that the ROK, in its reform efforts, was faced with three key issues, that is, eliminating corruption, achieving economic recovery, and perfecting laws and regulations to improve social order. These are the key elements of his governing program which he has been preparing for a long time and which were made public to a some extent before he came to power.

After elected president, Kim Yong-sam has emphasized the need to carry out "steady reforms," "to usher in an era of civilian government," to have a "clean government," and to establish a "strong government." To that end, it is necessary to reorganize the ruling party; to reform the bureaucracy; to lay off excess personnel; to get rid of the politicians with a military background; to establish an "Administrative-Renewal Promotion Committee" which will be directly under the president and which will be composed of people of all circles; to keep money from intervening in politics so as to eliminate corruption and other problems; to establish a "Central

Personnel Commission" so as to ensure fairness in personnel recruitment; to rationally adjust the demarcation lines between administrative districts so as to eliminate interregional prejudices and conflicts; and to introduce the practice of electing local officials before 1995 and to ensure that all elections can fully reflect popular will. Just 11 days after the formation of the new cabinet, Kim Yong-sam partially reshuffled it, dismissing the heads of the Justice Ministry, Construction Ministry, and Health and Social Affairs Ministry, as well as the mayor of Seoul for suspected use of office for private gains through illegal actions or for suspected violations of the law, and replacing them with new people. At the same time, he changed 46 deputy ministers of various ministries. This obviously shows that Kim Yong-sam has begun to implement his program in a vigorous manner.

In order to "reinvigorate the ROK's economy," Kim Yong-sam believes it is necessary to achieve economic development across all the regions of the country in an even manner, in order to bring about economic upturn as soon as possible. He proposes that the inflation rate be brought down to under 3 percent in two years; that the unfavorable balance of international payments be replaced with a favorable balance by 1994; that strong actions be taken against real estate speculations; that circulation be modernized; that the Ministry of Communications (that is, the ministry of posts and telecommunications) be strengthened, that special laws on the development of the information industry be formulated, and that the information industry be set up, in efforts to move toward becoming an information society; that investment in science and technology be increased, so as to greatly develop science and technology; that efforts be made to promote the transformation of the industrial structure; that procedures for starting small- and medium-sized enterprises be simplified; that financial assistance to small- and medium-sized enterprises be increased; that the environment of productive activities of enterprises be improved; that export be encouraged so that during his term of office the country can turn from having an unfavorable balance of international payments into having a favorable balance; and that by 1998 the per capita GNP be increased to US\$15,000 from US\$6,700 at present.

Furthermore, Kim Yong-sam has put the issue of resolving problems in people's lives in an important position. He emphasizes the need to support agricultural and fishery enterprises, and will establish a commission on the development of agricultural and fishing villages in the central government to guide the economic development of agricultural and fishing villages. At the same time, he opposes the opening up of the domestic rice market, in an effort to prevent harm to the development of agriculture of the ROK and to keep farmers from going bankrupt. He will introduce the system of guaranteed annual incomes for farmers, with 50 percent of the funds needed to come from government assistance. He plans to invest 5,900 billion won for enhancing environmental protection, and to adopt measures to purify river

water before 1996, so as to provide residents with clean natural water. He will adopt a series of specific measures to improve urban transportation, and will build 558 kilometers of subway lines in six large cities including Seoul.

With regard to the issue of unification, Kim Yong-sam has indicated that he will do his utmost to achieve national reconciliation and unification. He believes that "unification can be achieved in this century and emphasizes that "it is necessary to make all the preparations." He has a complete set of specific ideas on this issue. He proposed the two-stage Program for the Unification of the Korean Nation. In the first stage, a joint national entity will be established, and will handle specific unification-related matters at such forums as "North-South summit meetings," "North-South cabinet member meetings," a "North-South council," and a "joint office." In the second stage, unification will be completed. After the unification, the whole nation will together formulate a constitution, hold a general election, hold a unification conference, and form a new government. As for the present time, which is in a transitional period, first, meeting facilities should be built at Panmunjom, and meetings between dispersed family members in the North and South should be legalized. Second, a joint cultural and academic study team should be formed to conduct academic studies of the demilitarized zone. Third, efforts should be made to promote sports contacts between the North and South. For instance, joint teams can be formed to participate in international competitions; also, the two sides can jointly hold a sports conference to mark the fiftieth anniversary of the restoration. Fourth, direct trade and cooperative investment should be increased, so as to further promote economic cooperation and contacts. Fifth, a Kimkang Mountain-Solnguol Mountain tourist center should be established, and exchanges in the area of broadcasting should be developed. Kim Yong-sam is for retaining the U.S. military forces in the ROK, arguing that "the Korean Peninsula needs U.S. forces," and expressing the "hope that the U.S. forces stationed in the ROK will not be reduced."

With regard to foreign relations, Kim Yong-sam has declared that the ROK will develop and strengthen friendly relations with countries around the world, especially the neighboring countries, and will actively participate in the efforts to establish a new international order, so as to make contributions to world peace. He emphasizes the need to assure the ROK's political and economic position in Northeast Asia. To that end, the ROK will take an active part in the handling of international matters, especially Northeast Asian matters, and strive to have more say on regional matters of this region. At the same time, the ROK will actively participate in the economic cooperation and development efforts of the Asian-Pacific region. In his view, whether from an economic or a military perspective, the development of traditional friendly relations with the United States and Japan is very important. He also points out that the

ROK's basic diplomatic posture is to make the relations with the United States and Japan the pivot, while developing cooperative relations with China and Russia.

Kim Yong-sam has also affirmed China's important positive role in promoting the stability on the Korean Peninsula and the improvement of relations between the North and South of Korea, and has expressed the belief that the relations between the ROK and China have been developing in a fine manner since the establishment of diplomatic relations between the two, and that in the future it is necessary to promote the political, economic and cultural cooperation and exchanges between the ROK and China. Especially, it is necessary to strengthen economic and trade exchanges and cooperation, and increase investment in China, so as to provide Korean goods with a greater market.

Obviously, the domestic and foreign policies that President Kim Yong-sam and his government will pursue during the five-year term represent further improvement and development of the domestic and foreign policies formulated by the previous governments, and also demonstrate elements of exploration and renewal embodying characteristics of the era of the Kim Yong-sam government. Experts and scholars account for a large share of the new cabinet, so there is a strong flavor of civilian and technocratic rule. This will surely be helpful to the achievement of Kim Yong-sam's goals. Therefore, the new president and the new government are likely to produce significant results.

III. Various Hurdles Remain

Nevertheless, it is unlikely that President Kim Yong-sam and his government will encounter no difficulties in implementing his program, especially the four major tasks of achieving political stability, significant economic development, true North-South reconciliation and unification at an early date, and peaceful, friendly and cooperative foreign relations.

With regard to domestic affairs, the prominent issue is how to do away with the deformed relations between the military and politics. Even more conditions would have to be created in order to achieve true political democratization in the ROK. It is especially necessary to eradicate the influence of the long tradition of the military ruling the country or playing a decisive role in politics. According to the public opinion of the ROK, "in an era of civilian rule, the military should obey society, and become a group responsible for national defense and security"; to that end, it is necessary to eliminate the various obstacles inside the military, reform military institutions, establish a new military and national defense personnel system, and foster the desire to serve the nation and professionalism in the military so as to make military personnel professional soldiers. Since the deformed relations between the military and politics in the ROK have been in existence for as long as 32 years, and since many complex, deep-rooted ties have already

been formed among military officers, to conduct a large-scale surgical operation on this state of affairs cannot but arouse reactions from the military and have consequences. In fact, Kim Yong-sam's efforts to reorganize and reform the military have already led to resistance from people in the military. According to a 9 March report from the United News Agency of the ROK, Kim Yong-sam intends to eliminate possible counter strikes of the military in their embryonic stage," and "people are watching how those military officers who have had enormous influence on the previous governments and national policies will react in the days to come."

Within the DLP, the power struggle among the three main factions may intensify. Members of the former mainstream faction were mostly the close associates and immediate subordinates of No Tae-u in the previous years, and are very unhappy about the fact that power is in the hands of the Kim Yong-sam faction who were outsiders in the previous period. Many followers of Kim Chong-pil were loyal followers of Pak Chong-hui, president of an early time, and had always had differences with Kim Yong-sam. Now, while all are in the DLP, they are united only in appearance, but divided in terms of their thinking. Naturally, it will be a very difficult task for Kim Yong-sam to mitigate intra-party conflicts so as to achieve "unity of the party as a whole." If this matter is not handled well, new disputes and fighting over the redistribution of power will certainly affect the political situation in the ROK.

The opposition forces were defeated in the election. Kim Tae-chung has announced his retirement. Many people such as Chong Chu-yong and his son Chong Mong-chun have also left the Unification National Party that they themselves created, and as a result the party faces the danger of disintegration and has already been disqualified from forming its parliamentary group. However, the opposition parties remain a non-negligible force in the political arena of the ROK. They will not keep quiet; instead they will seize upon the errors and oversights of Kim Yong-sam and his government on political and economic matters, launching one-party, two-party or multiparty efforts to attack Kim and his government. In addition, some opposition forces are very angry with Kim Yong-sam because he left his friends and changed his affiliation earlier on so that later he could become president. Therefore, they are all the more eager to fight Kim Yong-sam. In view of the various problems, over the years, between political figures now in or outside power, it cannot be ruled out that opposition forces in and outside the party can join forces to form a unified opposition force. All this will pose threat to the Kim Yong-sam government. Political forces in or outside the government are deeply divided on whether to adopt a "cabinet system" or a "presidential system." Conflicts and fighting over this issue will further intensify. Kim Yong-sam appointed Hwang In-song, chairman of the DLP policy committee, an economist and a native of the south-of-the-lake region, to the post of Prime Minister, as well as people from various regions to other cabinet

posts. Public opinion of the ROK is that the purpose of those appointments was to reinvigorate the economy and eliminate interregional conflicts, and that the appointments will produce some effects, but the ROK will be unable fundamentally resolve interregional conflicts.

To get out of the economic slump and to reinvigorate the economy are an important issue about which every member of the ROK society is concerned. The economic situation of the ROK has not been good in recent years. Not only is the growth rate at its lowest in recent years (falling from 12 percent in 1988 to 4.5 percent in 1992), but also the competitiveness of exports has been greatly reduced. As domestic wages are rising, and as technological dependence on foreign countries is very heavy, the ROK is faced with a situation where increasing shares of the world market are being taken away by developed and developing countries. Furthermore, demand on overseas markets is weak. In 1992, international-payment deficit amounted to around US\$5 billion and foreign debt amounted to over US\$40 billion. Presently, most small- and medium-sized enterprises in the ROK lack funds, and are not successful in marketing their products; as a result, a staggering number of those enterprises have closed down. In 1992, at least over 4,000 small- and medium-sized enterprises closed down. It seems whether the new president of the ROK can end the economic stagnation and achieve prominent growth in the ROK will directly determine if Kim Yong-sam and his government will succeed or fail and if the political situation will be stable or turbulent.

With regard to external relations, since President No Tae-u already basically accomplished the objectives of his "Northern diplomacy" during his term of office, there are no longer major obstacles to be overcome by the new government in this area. But, many difficult problems concerning relations with developed countries remain to be resolved. The economic frictions with the United States are getting increasingly serious. If the ROK holds on to its position of "no opening" on the issue of whether to open up the market of rice and other agricultural products after Europe and the United States reach agreement on trade in agricultural products, then the ROK may find itself in an even more difficult position in the Uruguay Round of multilateral trade negotiations. The relations between the ROK and Japan have not been developing smoothly over the years. There are many difficult problems, including the issue of "distortion of the history of aggression in Japanese textbooks"—a legacy of history, territorial issues, and the large trade deficits with Japan. The last country that President No Tae-u visited before leaving office was Japan; the purpose was to try to improve the relations between the ROK and Japan. One reason why Kim Yong-sam has emphasized giving importance to Japan would naturally be that he intends to make great efforts to improve the relations between the ROK and Japan on the basis of the efforts made by his predecessors. The ROK-Japan trade is in a serious imbalance, with a deficit of US\$7.85 billion in 1992. Although the absolute amount was

smaller than that of 1991 by US\$902 million, the share in the overall trade deficit of the ROK increased by 52 percent over 1991. The reason was that the ROK's trade and economy are heavily dependent on Japan. The ROK has adopted the policy of diversifying import and export as well as economic cooperation, but has not achieved any positive effects in this regard. How to handle the relations with Japan is a very sensitive issue in the ROK. If Kim Yong-sam wants to be more successful than his predecessors in resolving problems in the relations between the ROK and Japan, he would have to have his own ideas and formulate different, effective policies; otherwise, he is unlikely to achieve his goal.

IV. Impact of the Situation on the Korean Peninsula

Kim Yong-sam is rather lucky with regard to the issues of reconciliation of the North and South of Korea and national unification. During the period when his three predecessors—Pak Chong-hui, Chon Tu-hwan and No Tae-u were in office, the North and the South, with their joint efforts, not only moved toward dialogue, but also achieved important changes in the North-South relations amid twists and turns. Especially, during the No Tae-u era, the North and South of Korea joined the United Nations separately, and relations between the ROK and the Soviet Union (Russia) and between the ROK and China were normalized respectively. After the North and South of Korea signed the Agreement on Reconciliation, Mutual Non-Aggression and Cooperative Exchanges and issued the Declaration on the Denuclearization of the Korean Peninsula, specific implementation steps have also started to be taken. Since then the situation on the Korean Peninsula has been moving toward relaxation and stability. All this has provided Kim Yong-sam and his government with a good foundation for resolving problems in North-South relations and for handling the relations with countries involved in the Korean question in the future.

Because of historical and current factors—domestic as well as external, the Korean question is both complex and difficult. Many problems that his predecessor President No wanted, but failed, to solve still remain. A North-South summit meeting has not yet been materialized. There have been many twists and turns in the process of implementing the two documents. Not only was the North-South dialogue suspended because of the joint ROK-U.S. military exercise, 1993 Team Spirit, and the issue of nuclear inspection, but also the North declared that the country was now in a "semi-war state," and that it would withdraw from the Nuclear Non-Proliferation Treaty. The Korean Peninsula experienced tensions not seen in the recent years. The economic and cultural exchanges between the two sides and the meeting of dispersed family members on the two sides were also suspended. It is common knowledge that a few years ago the North of Korea criticized Kim Yong-sam. The North also criticized the election of Kim as president, regarding the new government as "relying on U.S. support," and considering the only change to be the "replacement of No with Kim" (ROTONG SHINMUN of the DPRK, 21

December 1992). Thus, some Western scholars worry that after coming to power Kim Yong-sam may adopt a tougher attitude toward the North in handling North-South relations. When visiting the Democratic People's Republic of Korea last year, this author inquired of officials in charge of the relevant agencies of the DPRK about this issue. They clearly stated: whoever becomes president of South Korea, the North of Korea will deal with him, and will make real efforts to implement all the documents that the two sides have signed. At the swearing-in ceremony, Kim Yong-sam said that he was willing to meet with President Kim Il-sung on the reconciliation and unification of the North and South at any time and any place. Such a meeting will undoubtedly accelerate the process of reconciliation and unification, if it can really take place and produce results. Not long ago, Kim Yong-sam said that he "hopes that Pyongyang will, together with the ROK, return to the negotiating table after the joint ROK-U.S. military exercise has ended." But, how things will turn out will not be determined by the will and wishes of one side only.

The prospects of reconciliation of the North and South and national unification will be mainly determined by the two sides. Naturally, how Kim Yong-sam and his government, as one party to the North-South conflict, will act in the future will directly help determine whether

the situation on the Korean Peninsula will further improve or stagnate or go backward. Kim Yong-sam has already put forward his own overall ideas on achieving reconciliation between the North and South and finally achieving the unification of the Korean Peninsula as well as specific steps to achieve those goals. But, if the North also insists on its own overall ideas and the specific steps to achieve the goals involved, and if there are great differences between the two sides on the points to be emphasized and on the main elements, then it is unlikely that the two sides will be able to reach agreement in a short time.

After experiencing decades of tense confrontation and hostility, the North and South of Korea have finally come to shake each other's hands and talk peace, in accordance with the wishes of the people and the trend in the world. This is helpful not only to the improvement of the situation on the Korean Peninsula and the future development of the Korean nation, but also to the peace and stability of Northeast Asia and the Asian-Pacific region as whole. In view of this, the international community at large hopes for, and has the responsibility for actively promoting, greater and profound improvement of the relations between the North and the South and in the situation on the Korean Peninsula in the future as a result of joint efforts made by the North and the South.

NATIONAL AFFAIRS, POLICY

Ma Hong on Socialist Market Economy

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[Text] The socialist economic reform goal officially set forth by the 14th party plenum in the fall of 1992 was to establish a new socialist market economic system. The reforms are now accelerating, as is the formation of a new socialist market economic system.

What is meant by a socialist market economy with Chinese characteristics, and what is its fundamental composition? This question is getting quite a bit of attention, and in this article I will discuss some of my own understanding of this question.

1. What Is a Chinese Socialist Market Economy

Having been through 14 years of theory and exploratory practice in reform and opening up, the outlines of China's socialist market economy are, for the most part, quite clear. This was stated in the report of the 14th Party Plenum. Under state macroeconomic control, the market plays a basic role in resource deployment. At the same time, the state's macroeconomic control must be improved and strengthened, and healthy market development must be guided by good economic policies, economic regulations, planning and guidance, and necessary administrative management. As I understand it, China's socialist market economy has three characteristics: The first characteristic is that it is a type of true market economy, in which market economic principles are fully implemented. The second characteristic is that our market economy is built on a foundation of simultaneous development of a variety of economic components, the primary part being a system of public ownership. The third characteristic is that the country has used all kinds of policies and methods to guide and standardize the market, so that the intent of a state macroeconomic policy is effectively realized.

The first characteristic shows that China's market economy is a true market economy. It is not a partial market economy, nor is it a half planned and half market economy; it is a complete market system. Everyone knows that during the reforms from the early 1950's to the late 1980's, socialist countries were not at all thorough in introducing aspects of the market system. At first, without fundamentally touching the original planned system, enterprise initiative was brought into play by strengthening financial accounting and recognizing enterprises' share of profits. Later, power and profits were further ceded, planned targets were decreased, enterprise independence was expanded, and some areas opened up the commodity market, the labor market, the currency market and so forth. But although the reforms achieved some success, the market economy's basic principles (such as enterprises being solely responsible for their own profits and losses) could not be effectively implemented and the rate of resource deployment was still low, because a complete market system

had not been created. Therefore, the 14th Party Plenum consolidated past experience and clearly set forth the concept of a socialist market economy, and advocated that the market system play a basic role in resource deployment. Realizing such a goal requires fundamentally changing the highly centralized planned system of the past, and fundamentally reorganizing the society's economic structure. This includes creating a system in which enterprises have sole responsibility for their profits and losses and that is suited to the market economy, creating a complete market system (with various commodity markets and key markets), creating a legal system suited to the market economy, and creating a new social security system and system of macroeconomic control. We have already made definite progress in these areas, but in many areas further exploration and perfection are still needed.

The second characteristic shows that China's socialist market economy is built upon the economy of public ownership, and many types of economic components coexist on this foundation. This is different from reform in other countries: we have pursued market economic reforms without pursuing large-scale privatization, and have encouraged many kinds of economic components to develop together with a prerequisite of a predominantly publicly owned economy. At the outset of the reforms, state-run enterprises accounted for about 80 percent of industrial output; since the reforms, the collective sector and rural enterprises, in particular, have developed rapidly. Triple-investment enterprises, the individually owned sector and the private sector started from scratch and developed quickly, enabling the Chinese economy's system of ownership to change significantly. Currently, the state-run sector accounts for more than about 50 percent of industrial output; the collective sector (including rural enterprises) nearly 40 percent; and triple-investment, individual and private enterprises about 10 percent. This clearly shows that the structure of the Chinese economy's system of ownership has changed. No longer does the state-run sector hold a monopoly, and various sectors have developed at the same time. In particular, the public sector (including state-owned and collective) still accounts for the majority, at 90 percent, but the form of the public sector has changed. The former state-owned sector no longer fully takes the form of state management, and by switching its operational mechanisms to turn toward the market, it has become the major part of the independently managed market. Collective enterprises, particularly rural enterprises, have already become a decisive force in the national economy. And through stock market experiments, the stock market established by various investors has also developed rapidly. It can be expected that in the coming reforms, given that the public sector is the major part, many types of economic components will surely continue to develop, and their relative proportion many continue to increase. Joint-stock enterprises whose ownership is composed of a mixture of state-owned stock, enterprise stock and individual stock have also continued to develop. We have

further explored socialist property management and a property structure that is adapted to the needs of the market economy, in which the state-owned sector predominates and many types of ownership develop together.

The third characteristic is effective macroeconomic control of the market economy. We know that the modern market economy is no longer part of the laissez-faire era. All governments interfere in the market to varying degrees and by various means to ensure the healthy operation of the market. Of course, this kind of macroeconomic control does not involve direct mandatory planning to interfere with enterprises or interfere with the economy, but instead uses various means to regulate and guide the market, such as legal means, regulatory means and administrative means. Through economic legislation, policy guidance, administrative interference and so forth, not only is the trend toward equitable resource deployment ensured, but society's economic relationships can also be adjusted, and there can be an important effect on the market's organizational structure and mode of operation. Thus, through effective macroeconomic control, our market economy will inevitably have characteristics suited to China's conditions. We know that China is in a stage of developing from a traditional agricultural society to a modern economy, that our cultural traditions are entirely different from those of the West, and that we have our own particular resource situation. These factors have determined that we cannot imitate any Western or Far Eastern nation's ready-made model of a market economy, and that we should explore a path toward a market economy that reflects our own national circumstances.

2. The Current State of Development of a Socialist Market Economy

After 14 years of reform, the state of China's development of a market economy can be summed up in one sentence: The old planned economic system is changing, and the new market economic system is forming and becoming standardized. This is specifically reflected in the following ways:

1. Mandatory planning has already decreased significantly, and in the area of resource deployment, market mechanisms are already carrying out their primary function.

By 1985, mandatory planning in agricultural production was entirely eliminated, and guidance planning decreased proportionally year by year. By 1992, guidance planning was implemented for only a few products, including cotton and forest products. With the exception of implementing contract purchasing for grain and cotton (Guangdong and other provinces have already eliminated contract purchasing for grain), all other agricultural products are entirely adjusted to the market. State purchases of grain accounted for only 40 percent of the market's circulation of grain.

Mandatory planning for industrial products has decreased year by year. Before 1978, about 80 percent of

industrial output was subject to mandatory planning; it fell to 20 percent by 1985 and 11.7 percent by 1992. It will fall further in 1993.

For the most part, prices for merchandise are already subject to market pricing. Before 1978, commodity prices generally weren't determined by the market, but were set by the state. By 1985, the total volume of retail merchandise with state-set prices fell to about 50 percent. In recent years, this has gradually decreased—particularly in 1992, when the pricing of nearly all agricultural products, light industrial products and more than 500 kinds of production materials was opened up. By the end of 1992, about 90 percent of retail merchandise prices were determined by the market. Currently the prices of a few basic industrial products such as electricity, coal, crude oil and shipping costs are relatively low and should be further adjusted or gradually opened up. But the great majority of products are already subject to market pricing.

2. The system of enterprises being responsible for their own profits and losses is in the process of forming. Enterprises make up the major portion of the market, so if a system of enterprise responsibility for profits and losses is not formed, a market system cannot be established. In the past decade or more the reform of the enterprise system has taken place on two fronts: The first is the expansion of management autonomy for state-owned enterprises, expansion of the contract system, and changes in management mechanisms, so that enterprises can move toward responsibility for their own profits and losses. Significant progress has been made in this area; state-owned enterprises have started to move toward the market, but a period of exploration and perfection is required before they can become entirely responsible for their own profits and losses. The second front is encouraging the development of the private sector, such as the large-scale development of rural enterprises, triple-investment enterprises and joint-stock enterprises jointly owned by different investors. In particular, the output of rural enterprises has increased by 25 percent a year, and the private sector already accounts for about 50 percent. These enterprises have been responsible for their own profits and losses from the beginning and have come to rely mainly on the market. As a result, the formation of China's enterprise system has made breakthrough progress.

3. The socialist market economic system has already made initial developments. The market for consumer goods and agricultural goods has been completely opened up; the market for production materials has lagged behind the consumer goods market. The amount of goods controlled by the State Planning Commission fell from 256 types in 1979 to 19 types in 1990. In addition, these account for less and less of the gross domestic output every year. For example, the proportion of steel products and coal subject to state control has fallen to about 30 percent. Most production materials have entered market circulation. The country's major cities have established various sizes of trading centers for

production materials. The development of the financial market and labor market have also made exploratory progress. The consolidation of the banking system and funding allocation has resulted in short-term financial markets consisting primarily of various types of bonds. The securities market has begun to take form, and there are more than 300 securities trading organizations nationwide. As for the labor market, the iron rice bowl system of the past is changing through improved consolidation in state-run departments with reserve labor, and where additional workers are needed, contract work and a system of temporary workers has been implemented. In nonstate-run departments, the market system has played a major role in labor deployment.

The changes in government functions has led to a system of indirect regulation, a social security system, a legal framework adapted to the market economy, and a series of corresponding reforms in science and technology, education and various other areas. We have mostly broken away from the old system of centralized management and are now perfecting the new market economic system.

3. Establishing and Perfecting the New Socialist Market Economic System While Continuing the Reforms

China has made significant progress in establishing a new socialist market economic system. But much work remains to be done before it is perfected and finalized, and a rather long period of innovative exploration is still needed. The report of the 14th Communist Party plenum stated that the 1990's would see the initial construction of the new market economic system, and that by around 2020, a more mature and finalized system would be in place. This is more in accord with reality.

In the past 14 years of reform, we have followed a path of gradual reform. Experience has shown that this reform tactic is correct, and in the future we will continue along this path. In the course of reform, even though the goal of solving certain problems has been clear, actually solving them requires time and a process. Some problems have been solved temporarily without a plan in place, and through experimentation an appropriate method can be found. Some problems have actually been solved, but much work is needed to establish a system, to standardize, and to mature. In the future, China's reforms will move forward in a measured way, stage by stage, based on different problems and different circumstances. Based on China's current situation, future reforms will progress step by step in the following areas.

Agricultural reforms have made significant progress over the past 14 years. From now on it is mostly a question of perfecting and improving. First, based on experiments in opening up the management of grain, contract purchases must be gradually eliminated, and agricultural products, including grain, should enter the market. Based on a

responsibility system consisting mainly of contract management with stable households and a fully integrated two-tier management system, a rural social service system should be developed according to the needs of the commodity economy.

Most product prices have been opened up through pricing reform. In the 1990's, we must adjust coal, electricity and shipping costs and establish price formation mechanisms; as well, during the 1990's, a pricing system and price formation mechanisms can probably be fundamentally resolved.

The formation and perfection of the enterprise system must use different methods for different entities. Large-scale state-owned enterprises should transform management mechanisms in the short term to enable them to enter the market, assume risk on their own and seek their own development. In the long term, they must experiment with the joint-stock system so that joint-stock enterprises are managed entirely independently and are responsible for their own profits and losses. Some unsatisfactorily managed small state-run enterprises should be auctioned off, leased, merged or handled through other means. As for rural enterprises and collective enterprises, they should gradually take the path of legalizing management, based on perfecting current forms of management. Based on continuing reforms, a unified "corporate law" should be drawn up that includes different types of enterprises, so that all enterprises follow uniform laws and regulations in their management. Of course, these reforms may take quite a long time, and in particular it may take more exploration of a management system for state-owned capital, of hiring and firing employees in state-owned enterprises, and of mechanisms of entrepreneurship.

During the establishment of the market system, a consumer goods market has formed, and a production materials market will be forming in the 1990s. In the future the most important thing is to develop a commercial circulation organization with cross-regional and transnational management that meets the needs of the modern commodity market. While the financial market is developing and perfecting short-term and long-term markets, the commercialization of bank management must be carried out, so that the allocation of social funding does not depend of the will of administrative departments, but rather on economic principles. The allocation system, land use system, social security system and labor employment system must also be gradually perfected according to the principle of gradual advancement.

Further exploration must be done on perfecting the system of macroeconomic control. As old methods are changed, the new system of control should be gradually formed. This should include implementing correct financial and tax policies on a foundation of financial double-entry budgeting, strengthening the People's Bank's policy and supervisory functions, improving planned management, carrying out long-range plans, strengthening information guidance and so forth.

The reform tasks that we face in the future are still extremely onerous and formidable. However, we already have 14 years of experience, and in particular, we have a correct reform goal—establishing a new socialist market economic system. We have correct standards for judging the success or failure of reforms, and we have established as our basic standards whether or not the development of socialist production benefits, whether or not the consolidation of national strength increases, and whether or not the people's livelihood improves. As long as all the nation's people work as one toward this goal, abide by these standards and strive bravely, our reforms are sure to succeed.

Advantages, Disadvantages of Joining GATT Viewed

93CE0595A Beijing JIAGE LILUN YU SHIJIAN

[PRICE: THEORY AND PRACTICE] in Chinese

No 4, 20 Apr 93 pp 21, 22

[Article by Laws and Regulations Compilation Office, Legal Bureau, State Council: "Great Significance for China's Economic Life of Rejoining GATT"]

[Text] The GATT is a multilateral agreement among governments for the lowering of tariffs and the reduction of other trade barriers in international trade. China was one of the founders of GATT; however, for complex historical reasons we withdrew from GATT more than 40 years ago. In order to meet the needs of reform and opening to the outside world, and to develop a socialist market economy, China is actively preparing to re-enter GATT.

Generally speaking, the return to GATT holds more advantages than disadvantages for China's economic life. The benefits to be gained are as follows:

1. Enjoyment of consistent, multilateral, unconditional, long-term most favored nation treatment without prejudice.
2. Enjoyment of special preferential treatment as a developing nation such as the general preferential treatment that developed nations accord developing nations, i.e., enjoyment of one-way preferential tariffs that are even more favorable than most favored nation treatment. This can stimulate our nation's exports, expand market share, and promote the development of diversified markets.
3. Further acceleration of reform of the country's economic and trade system, greatly accelerating development of the socialist market economy. GATT is founded on a market economy and free trade. Entry into GATT means inclining toward a market economy and a free trade system. This will enable China's economic and trade system to blend in with the overall framework of the world economic structure.
4. Maximization of China's role in international economic affairs, including enjoyment of the right to participate in the formulation and revision of GATT regulations.

5. Aiding of the updating and technical transformation of the country's technical equipment and improvement of the quality of equipment in all kinds of enterprises. Since tariffs must be reduced and limitations on imports relaxed following a return to GATT, more advanced foreign technical equipment will be able to enter China.

6. Enjoyment of the benefits of multilateral negotiations relative to bilateral negotiations. Because a mutual compromise among the different interests of all parties is reached in multilateral negotiations, they cannot be affected by any specific nation.

7. Discussion, mediation, and solution of disputes among treaty signatories is one of the important functions of GATT. Use of the GATT dispute-resolution procedures and mechanisms for fair and reasonable resolution of trade controversies can protect the interests of China's enterprises.

8. On the basis of the transparency principle, China can share in the economic and trade information and data of world economic and trade organizations. This will help China draw up macroeconomic policies that are in keeping with the international economic pattern and realities.

Of course, entry into GATT may also produce some unfavorable effects on China's economy. The principle effects are as follows:

A) In accordance with the GATT principle of tariff reduction and market decontrol, when China enters GATT it will have to reduce its tariffs greatly, relax limitations on imports, and further open the domestic market. China's by no means powerful and prosperous indigenous industries, particularly industries in their infancy, will be seriously stricken. Currently, the weighted average tariff rate for GATT member nations is 4.7 percent for developed nations and about 11.3 percent for developing nations, but the weighted average tariff rate for China is 16.7 percent. For some sectors, the tariff rate is even higher. Tremendous lowering of tariffs is bound to hurt the development of some kinds of China's industries that are in their infancy.

B) The principle of abolishing quantitative limitations and the principle of liberalizing trade will require China to limit and cancel quotas as well as import and export licensing. Thus, China's import system will undergo major changes. China has already promised to cancel two-thirds of import licensing within the next three years, and to abolish import regulation taxes. The abolition and lowering of non-tariff barriers is bound to weaken China's trade protection measures.

C) The anti-dumping and the anti-subsidization issues pose a serious challenge to China. The GATT "subsidy memorandum" regards as export subsidies and accelerates countervailing duties when the government provides direct subsidies to exporting enterprises, permits their retention of foreign exchange, or provides export bonuses;

when export products are provided preferential transportation and transportation rates; when exporting enterprises are exempt from or pay reduced income taxes or social welfare payments; when export products and raw and processed materials used in production are granted an exemption from or a reduction in payment of indirect taxes; when tariffs are refunded on excess re-exports of materials brought into the country for processing; when government provides export loans at a lower interest rate than for commercial loans in general; and when items from other public expenditures are regarded as export subsidies. For developing countries, these views cover too wide an area, and assent to them cannot be given at once. This will require a long negotiating process.

These factors may directly hurt China's immediate interests, and some enterprises that are not very competitive may go bankrupt because of them. However, from the standpoint of long-term interests and overall interests, entry into GATT will help improve the quality and competitiveness of China's enterprises. It will help invigorate and develop China's economy. Moreover, GATT is a diplomatic negotiating arena for world trade in which all problems may be resolved through multilateral discussion. GATT Article 38 on "joint action" states: All treaty signatory nations are to take action as circumstances warrant, including international arrangements, to provide improved conditions that improve and satisfy the interests of developing nations, particularly the entry into markets of applicable primary products, and they are to formulate measures aimed at stabilizing and improving market conditions for these products, including the taking of actions so that stable, fair, and favorable prices may be obtained for these products. GATT has already noted the actual circumstances in and differences among developing nations, providing them with limited protection in order to help full employment and a rapid rise in the standard of living of the people of developing countries. However, such protection is neither of indefinite duration nor unconditional. The key lies in developing countries (including China) themselves wanting to develop a market economy fully to improve the international competitiveness of enterprises and their products.

GATT's Potential Impact on Domestic Prices, Remedies

93CE0595B Beijing JIAGE LILUN YU SHIJIAN
[PRICE: THEORY AND PRACTICE] in Chinese
No 4, 20 Apr 93 pp 12-15

[Article by Sun Quan (1327 3123) and Zhang Xianbin (1728 7359 2430): "The Effect on Domestic Prices of 'GATT Reentry' and Countermeasures"]

[Text] Restoration of China's status as a GATT signatory nation is an important matter in economic work today. Accelerating the pace of price reform and earliest possible building of a market price-setting mechanism

are objective requirements for building a socialist market economy that will produce a positive effect on the restoration of China's GATT signatory nation status. In addition, restoration of China's GATT signatory nation status will also play a role in advancing China's price reform. It will have a major and far-reaching effect on domestic market prices and pricing.

1. Effect of "GATT Restoration" on the Domestic Market

The 14th Party Congress said that the goal model for reform of China's economic system is the building of a socialist market economy. Realization of this goal requires steadfast implementation of a policy of reform and widening of decontrol. This is in keeping with GATT's purpose of making trade freer and promoting development. However, this is a gradual process, and restoration of China's status as a GATT signatory nation will accelerate this process.

1. Promoting the Accelerated Building of Markets in China

GATT requires that a market economy be the foundation on which the economy of all members operates. This is the foundation for GATT, and it is also one of the prerequisites for China's reentry into GATT.

Since the advent of reform and opening to the outside world, very great advances have been made in the building of markets in China. The framework for a market economy is already. As a result of the increasingly rapid development of a market economy, a miniature form of a large unified nationwide market has already taken shape. Today, nearly 85 percent of commodities are automatically regulated by the market. Most prices are also market-formed. As of the end of 1992, more than 90 percent of all commodity retail sales were market regulated. The production, supply, and marketing of the large number of civilian-run enterprises that have appeared in the wake of reform and opening to the outside world is based on the market situation. State-owned large- and medium-sized enterprises are also striving to transform operating mechanisms into a market mechanism. In China's coastal provinces, a market economy belt consisting mostly of special economic zones, cities open to the outside world, and special development zones has taken shape. The GDP of these areas already accounts for approximately 40 percent of total national investment.

However, China's markets today may only be said to be basically in keeping with GATT requirements; they still have a fairly long way to go to meet requirements for building a socialist market economy. In particular, the main part of the national economy—large- and medium-sized state-owned enterprises—has yet to become fully a part of the market economy. Further intensification of reform, acceleration of the building of markets, and fostering of markets will have to be done in the future. This is an inherent requirement of the country's economic system reform, and it is also an external pressure for the restoration of China's GATT status.

2. Spurring Review of Market Operating Regulations.

GATT's requirement that signatory nations unconditionally grant unconditional most favored nation treatment and national treatment to each other is termed the nondiscrimination principle, or the no different treatment principle. This is the cornerstone of GATT. In accordance with the requirements of this principle, similar goods imported from different signatory nations as well as imported goods of the same kind as domestic goods must be accorded equal treatment in domestic markets.

Since reform and opening to the outside world, we have reformed both our previous policy of preferential trade for different countries and certain restrictive policies on imports. We abolished special pricing and tariff considerations on some products, and we have permitted large amounts of foreign products to enter domestic markets to compete equally. Nevertheless, very many lingering problems remain that require solution. Examples include preferential import duty and added value tax treatment for commodities imported specifically for barter between the governments of some countries, and commodities imported for local and enterprise barter trade, and for economic and technical cooperation; and placing limits on the marketing area, the market ratio, and the consumers of some imported commodities. None of these practices are in keeping with the requirements of GATT's no different treatment principle. We will have to continue to intensify reform, further improving market regulations so that domestic and foreign products can compete equally.

3. Greater Internationalization of Markets.

The GATT principle of "eradicating quantitative limitations" requires not only that all countries abolish the levying of taxes and other charges, but also that they may not set up or maintain quotas, import licenses, or other measures that limit or prohibit the import-export trade. This principle means, in effect, the elimination of non-tariff barriers for further opening of domestic markets.

By way of meeting the requirement for further opening of markets, full reform of the country's foreign trade control system has been carried out in recent years: The scope of foreign trade command style plans has been greatly curtailed, guidance plans or market regulation substituted to a greater extent. The licensing of 16 kinds of imports has been abolished, and a two-thirds reduction within two or three years is promised. The "import substitution" policy has been reformed, import substitution memoranda no longer having binding force on domestic enterprises' importation of goods of similar kinds, etc. Nevertheless, a substantial number of non-tariff barriers remain in China today that are not in keeping with GATT requirements. Import command style plans will have to be cut back further, the number of administrative examinations and approvals of imports will have to be greatly reduced or such approvals will have to be cancelled, and the import licensing system

will have to be further improved to make it more scientific and transparent, and more fairly and equitably enforced.

4. Promotion of Domestic Market Competition.

GATT's "overall tax allowance principle" requires all signatory nations gradually to lower tariffs on foreign goods entering their domestic markets to abolish the obstructive role that high tariffs play in international trade.

The holding of numerous multilateral trade negotiations since the founding of GATT has tremendously reduced the level of tariffs in world trade, the average tariff for industrially developed nations falling from 40 percent to the present 4 to 5 percent. The weighted average tariff of developing countries today is also maintained at between 13 and 14 percent. Since China left GATT, it has long pursued a seclusion policy and a related high tariff policy. Since reform and opening to the outside world, the tariff system has been reformed and the tariff level greatly lowered. During the past several years, in particular, fairly large strides have been made. On 1 January 1992, the tariff rate on 225 import commodities was reduced, and effective 1 April 1992, all regulation taxes on imported goods were abolished, thereby satisfying the GATT requirement that China eliminate import surtaxes. In December 1992, tax rates on more than 3,000 taxed items were further readjusted, thereby lowering the overall tariff level 7.3 percent. Today, China's weighted average tariff level is about 20 percent. This is high in comparison with the world average level. The overly high tariff rate on a small number of commodities, in particular, produces an excessively negative protective role. With the restoration of China's GATT status, import tariffs will have to be appropriately reduced. The lowering of tariffs will promote domestic market competition, and similar domestic products will also face challenges from imports.

2. Effect of GATT Restitution on Domestic Prices

The changes in the market mechanism that restoration of China's GATT status occasion are bound to have a substantial effect on China's price reforms and price levels.

1. Accelerated Building of a Market Price Mechanism.

Since reform and opening to the outside world, world-arresting achievements have been scored in price reform. As of the end of 1992, the state set the price to only about 10 percent of all commodity retail sales. Nevertheless, quite a few problems remain today in the price control system. For example, some commodity prices that can be decontrolled have not been decontrolled; the "two track system" for means of production prices has not yet been completely straightened out; and situations remain in pricing policies that are not in keeping with the GATT no difference principle. GATT restoration is bound to occasion external pressures that spur an acceleration of the pace of price mechanism change for the earliest

possible establishment of a price forming mechanism in which the market price is paramount.

2. Spurring the Dovetailing of China's Price Structure With the International Market

Overall, comparison of current Chinese prices with international market prices shows Chinese prices of processing industry products such as machinery and electronics to be somewhat high. For example, the price of a sedan in China is about three times the price of a similar vehicle abroad; the price of a China-produced copy machine is 1.6 times the price of an import; and the price of a computer is more than double the price of a similar foreign product. Primary product prices are markedly lower, however. The price of crude oil and coal, for example, is lower than the international price. After restoration of China's GATT status, which will unify domestic and foreign markets, the dissimilarity of prices will have to be shortened gradually; otherwise the products of China's processing industries will be overwhelmed by foreign products, and they will likewise find no niche abroad. Primary products will flow into foreign markets in large numbers for a further worsening of the shortage of such products in domestic markets. Therefore, the strong pressures from abroad following GATT restoration will make China's price structure change in the direction of the international market.

3. Making Prices of China's Elements of Production More Rational

GATT signatory nations are extremely interested in input prices of China's elements of production, and they demand that pertinent data be provided. In recent years, China has scored marked achievements in fostering production elements markets. It has established capital, labor, real estate and such production elements markets everywhere, and production elements prices have gradually come to be truly expressed through the market "barometer." However, this is still at the initial stage. The array of markets is not complete, the scope of markets is still very narrow, and market operation is still not standardized. Therefore, China's production element markets urgently require rapid nurturing and completion so that enterprises will gradually be able to orient entirely toward markets, obtain inputs from markets, and realize product value through markets to meet the needs of the socialist market economy and be in keeping with GATT requirements.

4. Fairly Large Effect on the Overall Level of Domestic Market Prices.

In the short run, GATT's effect will be to lower domestic market prices. With acceleration of reform of the country's foreign trade mechanism, and the attendant decrease in administrative control measures such as licenses and quotas, tariffs will gradually become the main means for regulating imports. With the further opening to the outside world of domestic markets, the possibility of international market premium quality, low priced goods entering China's markets will increase. This

will cause a drop in prices of Chinese goods of the same kinds. On the other hand, China's tariff level will have to be reduced appropriately in accordance with GATT requirements; thus, the domestic sale price of some imported goods will fall. This will help alleviate the shortage of supply relative to demand, hold down inflation, and effectively maintain the overall level of market prices relatively stable.

Over the long run, the difficulty of keeping the overall market price level stable will increase. First, under the traditional system, China was a low price country. After restoration of its GATT status, China's economy will gradually become part of the world economic system, and its price formation system will expand to include international markets. The domestic price level will rise as international market prices rise. Second, as the external orientation of the economy increases, the relationship between international supply and demand as well as the price fluctuations ensuing therefrom will directly affect the balance between supply and demand for goods and the price level within China. This means that the possibility of the often remarked upon "importation of inflation" will increase. Third, with reform of the foreign exchange system, the mechanism that encourages exports and restrains imports will become stronger. Rise in the purchase price of export goods will drive up to a certain extent the prices of domestic goods of the same kind. Thus, an effective mechanism for restraining inflation will have to be rebuilt.

3. Exploration of Countermeasures To Be Taken in Response to "GATT Restitution" Prices

1. Intensification of price control system reform, accelerating transformation of the price formation mechanism to enable enterprises to engage in market operation, to meet market economy requirements, and to respond to "GATT restoration" challenges.

Realization of the foregoing requirements will require first of all, continued reduction of the number of goods for which the state sets prices. In particular, it is necessary to eliminate concerns that low international market prices will deliver a pounding to domestic goods of the same kinds. A positive and dynamic attitude will have to be taken for early decontrol of the prices of competitive goods for which a certain technical foundation exists in the country, and for which the possibility is fairly great that enterprises can tap potential to increase returns. Prices will have to be decontrolled on goods within plan for which prices are not firm as well as for goods for which there is a price inversion between those inside and outside plan. This will help enterprises improve control, advance technology, and lower costs in the course of competition to reduce the pounding occasioned by "GATT restoration." Second is readjustment and decontrol in combination to solve the "double track" price problem as quickly as possible so that large- and medium-sized enterprises may enter fair market competition as quickly as possible, accumulate experience, and move in the direction of

international markets. Third is the need for suitable delegation of price control authority to enable local governments, sectors, and enterprises to determine and readjust commodity prices promptly so that they fully reflect changes in market supply and demand. Fourth is the need to reform certain practices that are not in keeping with GATT's national treatment principle to dismantle the protective fences that price discrimination builds around domestic goods to enable enterprises to grow and develop through market competition.

2. Rational readjustment of state-controlled commodity prices of a monopoly nature and a resources nature, improving the irrational price system, gradually narrowing the dissimilarities between domestic and foreign prices to bring domestic markets in line with the international market.

An overwhelming majoring of processed goods prices have already been decontrolled. With proper macroeconomic regulation and control, they will gradually tend to go down under pressure from international market competition following "GATT restoration." The emphasis in price system reform is on a sensible increase in the state-controlled prices of primary products such as energy and basic raw and processed materials. We believe that setting the price level slightly lower than the international market price of similar products is about right. There are three reasons: One is the low level of technology in China's processing industries. Given this low level of technology, overly high prices of inputs would deliver a severe blow to domestic processing industries. Second is improvement in the types of goods exported. Expansion of the percentage of processed goods exports will be China's foreign trade strategy for a long time to come. Too high a price for inputs will weaken the competitiveness of export products, making attainment of the strategic goal of expanding the exports of processing industry products difficult. Third, the quality of China's primary products is still not as good as that of foreign goods of the same kinds, so even when China's markets are linked to international markets, their prices still cannot be raised to the international market price level. Any ill-advised rise in prices will ultimately cause sales to recede. This is the only way to both satisfy requirements for "GATT restoration," and also avoid a fairly great adverse effect on the domestic market and on imports and exports.

3. Establishing and strengthening the macroeconomic price regulation and control system to decrease the adverse effect of international market price fluctuations on the domestic market so as to keep the overall price level basically stable.

As was said earlier, restoration of China's GATT status will increase our difficulty in keeping the overall market price level basically stable. However, if the rule of the macroeconomic regulation and control system is used to the full, we will still have a certain amount of initiative. In this connection, we must first increase regulation and control of the national economy as a whole and its

structure. We must do a good job on imports and exports, and maintain their balance with government finance, credit, and materials. In drawing up industrial policies, regulating and controlling capital construction, the scale of credit and consumption funds, we must consider the effect of imports and exports. Second, we must work on building and improving the market system, making full use of the role of the market mechanism so that all production elements and goods entering markets will be traded more openly, on contracts, and for cash. Regularization and guidance of markets will permit enterprises to compete fairly in markets for the survival of the fittest. As markets expand in scale, enterprises will be better able to engage in international market competition. Third is the need to establish reserves of important import and export commodities, and a regulatory fund system to stabilize domestic market prices. The country must set up a reserve system for important imports and exports that can be used to hold down domestic market prices. It must set up a regulatory fund system for use in regulating enterprises raising of funds in domestic and international markets fluctuate wildly in order to reduce the effect on domestic markets of sudden changes in the international market.

4. Change in pricing function, improving price control to meet the new requirements.

Restoration of China's GATT status provides yet another opportunity for changing the pricing function. We must seize this opportunity. For pricing units, the following tasks are urgent: First is a widening of horizons, an emancipation of thinking, and the inculcation of large market concepts and international market concepts to improve analysis of the state of international markets, to study the relationship between and the effect of domestic and international markets, and to make such an analysis one of the prerequisites for working on the setting of prices. Second is amplification of price laws, regulations and methods to reduce direct administrative interference, laws and policies regulating enterprise prices and guiding market operation in keeping with international principles. This is guidance in the building of an industry-wide price consultation organization to discuss industry-wide import and export prices. When international market competition is fierce, exporting by many different units may create cut-throat sales competition and the killing off of each other. Many different firms providing price quotes on imports may also lead to unnecessary losses. So long as direct government interference is not permitted, the formation of an industry-wide price association is necessary to coordinate import and export prices, to avoid internal raising of prices and panic buying, and to avoid slashing export prices and competing for sales abroad, thereby reducing both enterprise and state losses. Fourth is widespread expansion of international market price information exchanges and consulting services, to provide a basis for price decisions of enterprises entering the international market.

International Economic Spying Alleged

93CE0686A Nanjing JIANGSU JINGJI BAO in Chinese
12 Jun 93 p 1

[Article by Gu Ai: "Be Alert, International Economic Spies Are Watching You"]

[Text] Secret-Stealing Shoes

It is reported that in 1973 the former Soviet Union decided to select an American jet passenger plane manufacturer. When the three major U.S. aircraft manufacturers—Boeing, Lockheed, and McDonnell-Douglas—became aware of this, each wanted to get this major contract for itself. However, the cunning Soviets did not choose any one company explicitly, but made the rounds between the three companies. In order to get the Soviets' business, Boeing agreed to allow 20 Soviet experts to come visit and inspect its plant. The Soviet experts carried out a thorough "inspection" and departed well-satisfied. The Boeing Company waited hopefully for the Soviets to come back to talk business and sign a contract, but they heard no further word. Much later the Americans discovered that the Soviets had used Boeing's technology and designs to manufacture an entire line of Ilyushin jet transport planes. The thing that puzzled Boeing, however, was the fact that when they were supplying the Soviets with information, they had held some things back, and had not revealed the secrets on the production of the composite materials used in the manufacture of their planes. The problem, however, resided in the shoes worn by some of the Soviet experts who had "inspected" the Boeing planes. These were shoes made specifically by expert spies and were capable of picking up metal shavings produced in the manufacture of the aircraft components: after analysis of these shavings, the Soviets were able to unlock the secrets of the composite materials.

The Necklace Connection

In the summer of 1991, a Frenchman bought an expensive necklace at a jewelry store and gave it to his girlfriend who worked as a secretary in the head office of IBM. One month later, the director at IBM was amazed to find that an advanced military computer software system developed by his company was being produced by a German company and exported to certain Arab nations. This type of computer system had been used to improve the anti-interference capabilities of NATO strategic missiles and was valued highly both militarily and commercially and so was one of IBM's most closely guarded secrets. After an exhaustive investigation, the problem was found to be in the lovely necklace hung about the neck of the director's secretary. The fastening of the necklace was found to contain a highly sensitive microphone and radio transmitter. Almost every major policy decision and secret within the company had been intercepted and transmitted to the outside.

The Salesman's Goof

In 1989 the sales staff of an American high technology firm flew to Paris in order to offer to Air France a device which could improve the capabilities of its aircraft. This was a top-secret device, so secret that there were only five copies of the documents describing the device's capabilities, price, and sales negotiating strategies. However, in the discussions with the American sales staff, it became evident from the questions asked by the Air France representatives that the French were already familiar with the contents of the documents. When the American sales representatives asked about the concerned documents, the French admitted that they had previously purchased a copy of the documents. This greatly angered the general manager of the sales staff; however, when the French finally turned over their copy of the documents, the notes on the documents showed that someone had copied the manager's own documents and sold them to Air France. This had been accomplished by the maid in the hotel where the general manager had stayed. When the American general manager had gone out to an evening affair, the maid, who was employed by a French intelligence organization, had made copies of the documents and then put them back. The French intelligence organization had handed the documents over to Air France. As someone later smirked: "This was one of the cheapest sales Uncle Sam ever made."

Lessons To Be Learned

On 20 September 1981, for the first time China launched three satellites using one booster rocket. In order to maintain secrecy, XINHUA issued only a very simple report. However, the launching of three satellites on one rocket engendered explosive international reactions because this quite possibly meant that China already possessed "MIRV" (multiple-warhead independently targeted reentry vehicle) technology. A great many military officers stationed in China were ordered to solicit intelligence from officials and their contacts. Our officials, of course, remained tight-lipped, but three days after the launch, a Beijing radio station put out a report on the "super secret space victory" and on 23 September one of the Beijing evening papers published a report on "China's Ninth Satellite." Perhaps the author did not consider this news item's "realism" and "drawing power" exciting enough and so at the same time also separately published drawings of three manmade earth satellites and a close-up photograph of workers doing final assembly work in the satellite final assembly room. The two articles revealed the orbit of the earth satellite and its radio telemetry frequencies, leaving nothing out.

China's "two-step fermentation of Vitamin C" was an extremely promising scientific achievement. Upon hearing about it, representatives from the two great industrial nations of the United States and Switzerland came to China seeking to obtain rights to the patent. One week later, however, the men from the two countries returned home with red faces. The patent was available

for the price of a magazine. A scientific journal had published the entire research process, all the particulars, the formula, the dosage, and everything and so anyone with a smidgen of scientific knowledge could take the "cookbook" home and make it.

The "Parker Perfect" pen of the U.S. Parker Pen Company is known the world over. Of course, China's "Hero" and "Gold Star" brands have their unique technologies which lead the field, such as the polishing technique for their stainless steel pen casings. Two Parker Pen vice presidents came to China and unexpectedly found that the Chinese pen companies were having a customer open-house. So, they took their cameras and, under the watchful eye of the crowds, took pictures of the structure of the polishing machines and their operating procedures, and contentedly left for home. The people at Hero realized too late what had happened, and could only blame themselves.

Be alert, international economic spies are watching you.

Foreign Companies Engaging in Fraudulent Practices

93CE0686B Shanghai SHANGHAI GONGYE JINGJI
BAO in Chinese 8 Jun 93 p 2

[Article: "Watch Out, There are Pitfalls Around Here: Be Alert for Some of the Unlawful Deceptive Practices of Foreign Businessmen"]

[Text] 1. Beware of Imitations

According to international trade statistics, each year between three and nine percent of trade volume is in counterfeit products. This year a large number of well-known computers, automotive parts, jewelry and perfumes, among other things, as well as many famous brand logos, are being counterfeited.

Fake products have hoodwinked a great number of consumers eager to purchase famous brand products; not a few manufacturers use these trademarks to push their own products into the international marketplace. In some countries the manufacture of counterfeit products has become a major source of employment. At present, the majority of the fake and inferior products are manufactured in South-east Asia and Latin America, although Italy is the nexus of the high class clothing and leather goods counterfeiting, while in England it is perfumes. In America, fake products are found primarily on the east coast, the Miami area, and in the San Francisco-Los Angeles areas where they are manufactured or assembled.

2. Spot False Documentation

In 1985 a group of Italian swindlers cheated four of China's major steel corporations in succession. The group, working under two identities, one as a steel goods trading corporation (in the role of middleman) and another as a shipping company (in the role of carrier) would create false vouchers and invoices to swindle the other side out of its money. This group also linked up with criminal businessmen in Sweden, Germany, and Luxembourg to cheat consumers in over a

dozen countries including India, Pakistan, Saudi Arabia and Egypt, swindling some \$2 billion.

3. Check the Letter of Credit Thoroughly Before Signing the Contract

In 1985 six companies in the United States, Switzerland, and Italy swindled several of our trading companies. After an investigation, we found that of the two American companies, the one registered in New York was not capitalized and the other was not registered and had no capital either. Of the two companies in Italy, one had been registered in 1981, but with only \$15,000 in capitalization, and the other was neither registered nor capitalized.

4. Do Not Change Contractual Conditions Without Good Reason

The conditions stated in a contract are stipulated after careful deliberation and mutual discussion between the buyer and seller. At the renewal of a contract, if the stipulations of the contract are to be changed it means that problems are likely to arise. A great many actual examples prove that changing contractual conditions is a method commonly used by international swindlers. In 1985, for those in China being cheated on their contracts, one common reason was that the buyer repeatedly changed the conditions, changing this and changing that, and in the end a great deal of money ended up in the swindlers' pockets: the lesson is there to be easily learned.

5. Check Vouchers and Invoices Thoroughly Before Paying Money

No matter how sophisticated the swindlers' methods, the swindle will reveal some inconsistencies in the documentation. In one contract, the handwriting and style of the signatures on the four documents proffered by the seller—the shipping manifest, the manufacturer's quality guarantee, the weight and quality certificate, and the packing invoice—were all identical, obviously all written by the same person. However, the shipping manifest was prepared by a rental company with an address in a small port to the south of Ravenna, while the manufacturer was in a small town to the north of Milan. The names, addresses, and telephone numbers of the two companies were entirely different; they were separated by several hundred kilometers. This was obviously very suspicious, but the businessman agreed to release the money without questioning. It is clear that our business personnel carry out trade activities with much too little caution.

The prevention of swindling takes place before and during the course of the negotiations. The following guidelines should be followed:

1. Perform a Thorough Credit Check and a Comprehensive Investigation

The relevant internal and overseas Chinese offices should make a determination of the reliability and friendly nature of the second party; one should know the degree of advancement and the price levels of all purchased and imported equipment, insist on comparisons

with others, be aware of all aspects so as to facilitate comparisons, and be confident in bargaining and not take a beating or be cheated.

2. Be Expert in Accounting

Because markets are forever changing, prices are never independently stable and change with changes in the political, economic, currency, and exchange rate situations; thus, one must forever be on top of the situation.

3. Be Selective

After making comparisons, select the machinery and equipment which is most suitable for our needs and our technical processes; when making selections, knowledgeable experts should be on hand and take part.

4. Select the Most Profitable Method of Payment

5. Select the Most Feasible Method of Pricing for Resold Goods.

FINANCE, BANKING

Development of Futures Markets Advocated

93CE0676B Beijing JINRONG SHIBAO in Chinese
22 Jun 93 p 3

[Article by staff reporter Xu Yongjian: "The Futures Market: An Investment Market Waiting To Be Developed"]

[Text] Zhenzhou, a famous and historic city in central China, is rapidly moving toward becoming a national, internationalized futures-trading metropolis. On May 28 the Zhenzhou Commodity Exchange officially began business operations. This exchange is built upon the framework of the first commodity futures market—in operation for many years—in the new China, the Zhenzhou Grain Wholesale Market. At the newly established China Leasing Futures Company of Henan, this reporter solicited views—on the emerging futures markets—from Li Jingmou, president of the Zhenzhou Commodity Exchange, Professor Zeng Kanglin of the Southwest Finance University, Dr. Wang Zili, general manager of the China Leasing Futures Company, Dr. Li Ping, deputy general manager, Dr. Xiong Nanjing, Dr. Zhen Xianbing, and Li Chunting, vice president of the Henan Provincial People's Bank, thereby learning a great deal. The following is a round-up of their discussion in the form of a dialogue.

Premature or timely?

A: Futures market activity is an advanced form of commodity economy activity. But China's market economy is still underdeveloped, and the commodity economy is still in an underdeveloped stage. Is it now premature to establish and develop futures markets?

B: Amid market fluctuations in a commodity economy, both those supplying goods and those demanding goods will always face the issue of how to reduce price risks and ensure relative stability in production and circulation. To

resolve this issue, people began to master the practice of forward trading as early as in the period where commodity economy was very underdeveloped. By reviewing the economic history of futures trading, we will be able to see that this form of activity, which is defined as an advanced form of market economic activity, did not start after the market had gone through its underdeveloped stages, but goes back to the times of ancient Greece and Rome over 2,000 years ago. When the regular Chicago Futures Exchange was opened in 1848, the United States had a market economy less developed than the Chinese economy is now.

Presently, the Chinese economy is rapidly moving toward becoming a market economy, and the strengths and achievements of China's commodity economy are generally acknowledged. But we are faced with rapid growth in natural risks, market risks, credit risks, purchasing-power risks, financial risks, exchange rate risks, interest rate risks, and management risks. Such growth is producing tremendous detrimental effects on the interests of the producers and suppliers of goods. Under the current conditions in China, it is not only timely to develop futures markets, but necessary to accelerate the development.

A: Since early last year there has been a strong tide of establishing futures markets and futures brokerage firms across the country, and this tide appears to be likely to become the third finance tide following the real estate fever and the stock fever. Are the feverish activities excessive this time?

B: This is a rather popular view based on holding contractual forward trading to be futures market activity. Such is a misunderstanding. On a real futures market, what is traded on the market is not goods, but contracts on future deliveries of various physical goods and financial goods. Very few of the established futures markets in China are truly qualified in this respect. Thus, realistically speaking, despite everyone's enthusiasm China's futures markets remain only in the beginning stage.

In the beginning stage, it is unavoidable that there will occur such phenomena as institutional "pluralism" and "miniaturization" as well as behavioral "spontaneity"; and there is no need to get alarmed. It is necessary to adopt the approach of continuously advancing and making improvements, and to guide the development on the basis of considerations of the actual circumstances so as to have the markets start to grow and mature.

A new investment market

A: It is rather easy for people to understand the role of futures markets in dispersing risk, facilitating value preservation, and maintaining relative economic stability; but many people seem to lack understanding of the significance of futures markets for developing new investment markets and tend to have many doubts about the ways in which futures markets perform their functions.

B: You are correct. In fact, those are the two inseparable sides of one issue. Many people hold contradictory views on the two sides of futures markets, mainly because they do not

have a comprehensive understanding of the internal mechanism of futures markets. Futures markets can perform the function of ensuring value preservation for both those supplying goods and those demanding goods, not because they have the magical power of eliminating the fluctuations of market prices, but because they provide both those supplying goods and those demanding goods with means and channels of transferring risk and—in terms of values—making up losses. This refers to trading in futures contracts on the basis of moving in the opposite direction of the price trends on the spot markets, thereby conducting value-preserving hedging. On futures markets, those engaged in value-preserving hedging are mainly interested not in reaping huge profits, but in avoiding risk by hedging against the harmful price fluctuations on the market so as to provide protection for their enterprises. While transferring risk, they are also giving away the opportunities to reap huge profits. Whether they can easily transfer risk is dependent on how many investors would like to pursue risk profits by being willing to take risks caused by the fluctuation of market prices and participate in trading on futures markets. The two sides, one giving and the other receiving, can create equilibrium in regard to the functioning of the economy. The more risk investors there are, the more the functioning of futures markets is assured.

A: Does that mean that the development of futures markets will inevitably result in the expansion of the scope of investment activities in a market economy?

B: Yes. The rapidly growing goods and securities spot markets in China's market economy provide people with greater opportunities to invest for value-increasing purposes; and the development of futures markets will provide investors with opportunities to gain risk profits through breaking down—to an even greater extent—the confines of time and space. We should have an adequate understanding of this.

Investment or speculation?

A: Goods themselves do not enter futures markets; only contracts written on paper are traded. Will such speculation in the form of buying and selling nonexistent goods bring about confusion on the market?

B: The practice of buying and selling nonexistent goods is a typical form of speculation. We cannot say that futures trading is just buying and selling nonexistent goods, for real goods or securities would still have to be delivered at the designated times; but, we can surely say that almost all trading on futures markets is carried out through conducting the buying and selling of nonexistent goods—that is, that investors on futures markets are the same as speculators. As discussed above, since such speculation is the precondition for the normal functioning of futures markets, there is nothing wrong with its existence. Contrary to ordinary people's reasoning based on "assumptions," the fact that speculators frequently enter and exit futures markets creates neither confusion nor risk. On the surface, prices on futures markets fluctuate, and speculators themselves make huge profits or losses. But, from the perspective of the economy

as a whole, the activities of these traders who make profits by taking risks are contributing to the relative stability that those conducting value-preserving hedging enjoy in their production and business operations. What has changed is how wealth is distributed among the speculators.

The futures market is an investment market which generates high returns accompanied by high risk. But such risks are only market risks and price fluctuation risks, not risks of breach of contract. The phenomenon of contract breaching occurs rarely on some existing large futures markets in the world. Such a situation ensures that futures trading is carried out in a lively—but not disorderly—manner. However, on the existing commodity markets and securities markets in China, investors, when facing the reality of market risks, tend to wish to transfer market risk by breaching contracts, instead of following the precept of "learning from mistakes" and investing again in the hope of winning next time. In developing futures markets, we should not—in violation of the inner laws of things—impose restrictions on the activities of buying and selling nonexistent goods carried out on the basis of open price competition. Instead, we should enhance the development of futures markets in terms of making them more standardized and more based on laws, while making efforts to foster the tendency to be highly trustworthy among all actors on the markets.

Banks have responsibility for developing futures markets

A: What can banks do to promote the development of futures markets?

B: What is traded on futures markets is futures contracts which are securities. In this sense, the futures market is also a form of financial market. Futures markets and the financial industry have close inherent relations to each other and affect each other. Because of the continuous development of futures markets, the financial industry will also be faced with many new issues and new requirements.

In the near future, banks can provide financial services in support of the development of futures markets by doing the following several things: First, providing highly effective settlement services. Second, banks should—on the basis of ensuring the preservation of funds—provide short-term loans to clients when they have fund shortages because of temporary delays in getting funds through conducting settlement, and when they have normal, appropriate needs for funds for conducting value-preserving hedging. Third, actively develop secondary bond markets so as to provide a good external environment for turning bonds into cash, an environment which will be helpful to the clients who—in their trading activities—use bonds as collateral, thereby reducing enterprises' transaction costs and expanding trading on the markets. Fourth, it is necessary to support futures markets in their effort to start financial futures trading when conditions are ripe. Fifth, make active efforts to change some old regulations and methods which are no longer adequate for meeting the needs of the development of futures markets, so as to provide a good financial environment for such development.

Government's Financial Situation Deteriorating

93CE0518B Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 5, 1 May 93 35-37

[Article by Hsiao Yang: "The PRC's Financial Situation Is Deteriorating, and the Top Leadership Is Hurriedly Planning Reform"]

[Text] The continual growth of hard deficits over the years and the continual increase in currency issuance to balance the deficits are resulting in strong forces pushing the currency to devalue and in the decline of the center's ability to control the localities. The fiscal difficulties, if not resolved, can lead to serious turbulence. In view of that, the CPC is planning a complete reform of the fiscal and taxation system.

Since the beginning of this year, in discussing the economic development of the Chinese mainland, people of all circles have mostly been focusing on the issue of "overheating of the economy," while—in a relative sense—overlooking the seriousness of the deterioration of the PRC's financial situation. In fact, the report on the budget presented by Liu Zhongli, finance minister of the PRC, at the eighth session of the National People's Congress shows that the PRC's fiscal crisis has developed to such an extent that it is now endangering the stability of the political-economic system as a whole. On the one hand, the continual growth of fiscal deficits over the years has been forcefully pushing the currency to devalue, while also affecting the effort to achieve normalcy in the financial system. More important, the deterioration of the financial situation has resulted in the substantial decline of the center's ability to control the localities, while the gaps and conflicts between the localities are growing.

The Continual Growth of Hard Deficits Over the Years

As pointed out by Liu Zhongli in his report, last year the PRC's fiscal deficit reached over 90.49 billion yuan, of which 66.7 billion yuan was covered by domestic and overseas borrowing. The rest—the part which could not be covered in the above-mentioned ways and which would be called "hard deficit" in the PRC—was covered mainly through increasing credit funds and printing more banknotes; this would also add greatly to the forces pushing the currency to devalue.

Last year, the hard deficit increased by 2.6 billion yuan over the preceding year. During the period of 1979 to the present, only 1985 saw no hard deficit (see table 1). Over the fourteen years, the People's Bank has issued banknotes totalling around 130 billion yuan for balancing purposes. Vice-Premier Zhou Jiahua and Finance Minister Liu Zhongli both indicated that this year the hard deficit should not be allowed to exceed the limit of around 20.5 billion yuan, but, generally, people are not optimistic about this. The reason is that government spending is growing too rapidly, while tax revenues are unable to keep pace.

Rising Consumption Rate and Falling Accumulation Rate

The PRC's deficit-expanding budgetary practices have resulted in a vicious cycle in the financial situation where "one drinks poison to relieve thirst." Since 1979 when overseas borrowing started, debt burden has grown continually. The growth rate has been especially alarming since 1986. Debt payments totalled 7.2 billion yuan in 1989 and grew by 169 percent in 1990; by 30 percent in 1991; and by 77 percent in 1992. The growth rate of debt payments is much higher than the growth rate of the state's investment in capital construction.

Table 1. The total fiscal revenue and expenditure of the state (in 100 million yuan)

| Year | Total revenue | Total expenditure | balance | Index (100 for the preceding year) | |
|-----------------|---------------|-------------------|---------|------------------------------------|-------------------|
| | | | | Total revenue | Total expenditure |
| 1979 | 1103.3 | 1273.9 | -170.6 | 98.4 | 114.7 |
| 1980 | 1085.2 | 1212.7 | -127.5 | 98.4 | 95.2 |
| 1981 | 1089.5 | 1115.0 | -25.5 | 100.4 | 91.9 |
| 1982 | 1124.0 | 1153.3 | -29.3 | 103.2 | 103.4 |
| 1983 | 1249.0 | 1292.5 | -43.5 | 111.1 | 112.1 |
| 1984 | 1501.9 | 1546.4 | -44.5 | 120.2 | 119.6 |
| 1985 | 1866.4 | 1844.8 | 21.6 | 124.3 | 119.3 |
| 1986 | 2260.3 | 2330.8 | -70.5 | 121.3 | 126.3 |
| 1987 | 2368.9 | 2448.5 | -79.6 | 104.8 | 105.0 |
| 1988 | 2628.0 | 2706.6 | -78.6 | 110.9 | 110.5 |
| 1989 | 2947.9 | 3040.2 | -92.3 | 112.2 | 112.3 |
| 1990 | 3312.6 | 3452.2 | -139.6 | 112.4 | 113.6 |
| 1991 | 3610.9 | 3813.6 | -202.7 | 109.0 | 110.5 |
| 1992 | 4189.0 | 4426.5 | -206.4 | | |
| 1993 (estimate) | 4522.4 | 4727.4 | -205.0 | | |

Source: data for 1979-1991 are based on PRC official statistics; data for 1992 and 1993 are from Liu Zhongli's report presented at the eighth session of the NPC.

Last year the PRC's investment in production-related capital construction grew by less than 7 percent over the preceding year, and this year the budgeted amount of investment even fell by 8.5 percent over the preceding year, resulting in inadequate capital construction and a

decrease in capital formation. This is seriously eroding the foundations of economic development. Since 1985 the share of consumption in national income increased continually, while the accumulation rate has been falling steadily. (See Table 2.)

Table 2. The shares of consumption and accumulation in national income

| Year | Consumption rate (percentage) | Accumulation rate (percentage) |
|------|-------------------------------|--------------------------------|
| 1981 | 71.7 | 28.3 |
| 1982 | 71.2 | 28.8 |
| 1983 | 70.3 | 29.7 |
| 1984 | 68.5 | 31.5 |
| 1985 | 65.0 | 35.0 |
| 1986 | 65.3 | 34.7 |
| 1987 | 65.9 | 34.1 |
| 1988 | 65.5 | 34.5 |
| 1989 | 66.2 | 33.8 |
| 1990 | 67.2 | 32.8 |
| 1991 | 68.0 | 32.0 |

Source: official PRC statistics.

In addition, as the state's finance cannot support regular economic construction expenditures, the state must ask the banks to perform some fiscal functions, that is, to provide policy-based loans. The banks have too much policy-related business to handle. This has become an important obstacle to the deepening reform of the financial system in the PRC, and is also an important reason for the inability of the banks to keep a firm control over the credit gate.

The Root Cause Lies in the Insufficient Supply of Tax Revenue

The root cause of the fiscal crisis lies in the insufficient supply of tax revenue. Last year, the gross national product of the Chinese mainland grew by 12.8 percent, but tax revenue only grew by 5 percent. The insufficient supply of tax revenue is caused by two problems in the system: One is the "reducing taxes and sharing profits" policy followed since the start of the reform; and the other is the unfair distribution of government revenue and expenditure between the center and the localities.

In 1979, shortly after the reform policy was adopted, the PRC used the "reducing taxes and sharing profits" policy to stimulate production. With regard to agriculture, it raised the state purchase prices of agricultural products; with regard to industry, it began to allow the use of retained profits for bonus-dispensing purposes. In 1979 the income of the peasants increased by over 15 billion yuan; with regard to the industrial sectors, the state lost as much as 6 billion yuan in fiscal revenue because of the dispensing of various bonuses.

While this policy has surely stimulated the desire to produce and resulted in the improvement of people's

lives, state finances have entered a situation of insufficient fiscal revenue and growing deficits. In 1979 fiscal revenue decreased by 17.75 billion yuan, and the hard deficit reached a record high—17.07 billion yuan.

Had the economic system of the Chinese mainland already been successfully turned into a market economy, and had the government already been turned from an all-controlling "big brother" into a limited government, the impact of the government's financial situation on the economy as a whole would have been much smaller. However, in reality such is not the case. The PRC must bear the burden of large amounts of loss-related subsidies given to enterprises, price-related subsidies, social welfare spending, and huge personnel expenditures. More important, many poor provinces are still dependant on financial help from the central government under principles of redistribution.

Helping the Poor Provinces in Order To Keep a Balance Between the Regions

In recent months the CPC has been publicizing the policy of "coordinated development across the regions." Particularly, General Secretary Jiang Zemin in his speech at the Second Plenum of the Fourteenth CPC Central Committee (later the speech appeared in the form of an editorial in RENMIN RIBAO) gave special emphasis to coordinating the regions' development and achieving a balance between regions. It has always been the case that the CPC would openly discuss a problem only when the problem has become extremely serious. Putting forward the slogan of "coordinated and even development of the regions" signifies that the CPC is

now no longer able to control the trend of polarization in regard to the coastal and inland regions of the Chinese mainland.

After the PRC has given up the use of mandatory plans, the state's tools to be used for conducting macroeconomic regulation and control become fiscal and financial policies. The center must provide the poor inland provinces with a large amount of aid to keep a balance between the inland and coastal regions. The center must depend on the fiscal revenue from the rich coastal provinces for the money to be used for giving subsidies to the inland regions. Currently, the rich coastal provinces are very unhappy about the huge sums of money handed over to the center. The localities are using every accounting gimmick to withhold the profits and reduce the amounts of money to be handed over. Furthermore, as the center is dependent on the rich provinces, those provinces are in an increasingly strong bargaining position, and it is increasingly difficult for the center to implement its policies.

In addition, the rich and poor provinces are forming a kind of exploiter-exploited relationship between themselves. The rich provinces, on the one hand, exploit the cheap labor and resources of the inland regions, but, on the other hand, erect various barriers to keep the inland products from being able to compete in the coastal provinces. If this goes on for a long time, then the national economy will disintegrate, and the central government will thus have no ability to carry out macroeconomic regulation and control and promote integration.

A Thorough Reform of the Fiscal System Being Planned

The fiscal difficulties, if not effectively resolved, can lead to serious political turbulence on the Chinese mainland. In view of that, the CPC is planning a more thorough reform of the fiscal system, intending to completely abolish the fiscal contract system by totally separating national taxes from local taxes. According to a high-ranking State Council official, the fiscal reform now being planned by the CPC consists of two parts:

1. First, change the central-local relations in the area of fiscal revenues.
2. Then adjust the structure of spending and establish a system under which the center will use fiscal revenues from one locality for spending in other localities, promoting even development across the regions through redistribution and the use of fiscal funds.

According to a PRC financial official, the ultimate goal of reforming the taxation system is to make sure that the localities will have regular tax revenue sufficient for local spending. But the center must still give subsidies to the inland provinces. To reach that goal, it is first of all necessary to expand the tax base of localities and reduce the relative importance of revenue-sharing taxes. The method to be used is to first proceed with trial implementation of the separate taxation system on a more

widespread basis. But, this does not mean ruling out the possibility of carrying out, first, pilot projects concerning the complete separation of local taxation from national taxation. According to that official, the plan on a new taxation system can be implemented before long.

However, that official also admitted that as this momentous reform would affect the distribution of benefits between the center and the localities and between enterprises and the government, it would be necessary to do the "ideological job" well.

"Everyone-Removing-a-Brick" Campaign

An "everyone-removing-a-brick" campaign is now going on in China. "As everyone is removing a brick from the wall of the state and taking the brick home, the state cannot but collapse eventually!" said a Beijing businessman, describing the profiteering carried out by government officials and the use of state assets for private purposes. But, this is also the best depiction of the current financial situation of the PRC. The gold bricks are now being taken away one after another, while the national debt is growing.

A regime suffering from fiscal crisis would not even be able perform routine government functions, and thus the regime would also face a legitimacy crisis. Whether the CPC can get over this crisis will depend on whether the reform of the fiscal and taxation system it is now planning can succeed.

Steps To Implement Renminbi Convertibility Viewed

93CE0676A Beijing JINRONG SHIBAO in Chinese
14 Jun 93 p 3

[Article by Wang Meiyang: "The Conditions for Implementing, and Steps To Implement, Renminbi Convertibility"]

[Text] With the establishment and development of the socialist market system, the currency circulation situation in China will inevitably move toward being characterized by internationalization of the renminbi (RMB). Recently, the International Finance Research Society under the Chinese Finance Association invited experts and scholars to participate in a discussion of this issue; some ideas worth considering were put forward.

1. The near-term objective of the effort to internationalize the RMB is to achieve convertibility

Convertibility of a currency and internationalization of a currency are two concepts that are somewhat connected but different. The internationalization of a currency—besides the achievement of full convertibility of that currency—also entails assumption of a series of responsibilities and obligations which must be assumed when a currency becomes an international currency. Some countries have made their currencies convertible, but are unwilling to internationalize them. In view of the actual

situation in China, the internationalization of our currency is only a long-range goal. Presently, our analysis is focused on the issue of RMB convertibility. According to the consensus view, "RMB convertibility" as a goal of reform of the foreign-exchange regulation system has several layers. There is convertibility in regard to the current account balance of international payments and convertibility in regard to the capital account balance of international payments. Current account convertibility also encompasses trade-related current-account convertibility and nontrade current-account convertibility; and nontrade current-account convertibility also encompasses nonresident convertibility and domestic-resident convertibility. The experiences of making currencies convertible in countries around the world show that the usual approach is, first, to implement trade-related current-account convertibility; then, to implement capital-account convertibility; and last, to implement domestic-resident convertibility. Only a few countries have started from implementing domestic-resident convertibility.

2. The conditions for implementing RMB convertibility

In order to implement RMB convertibility, it is necessary to have the following basic conditions: (1) The country must have strong economic capabilities, and domestic products and labor must be able to compete well against, and substitute for, products on the international market. Only in this way will it be possible to lay the material foundations of RMB convertibility. (2) There should be balance-of-payments equilibrium and abundant foreign exchange reserves. If there are persistent current-account international payments deficits and capital-account international payments surpluses, foreign exchange reserves will be depleted very quickly. (3) Price relationships have been straightened out. Maintaining a stable price level is conducive to having relatively stable exchange rates. (4) Exchange rates are rationalized. It is necessary to introduce uniform exchange rates and maintain exchange rates at appropriate levels (to eliminate the phenomenon of overvaluation of the RMB). (5) The transformation of enterprises' operating mechanisms are completed, so that China's enterprises can have self-constraint mechanisms controlling the use of such resources as foreign exchange. (6) Fully developed market mechanisms are formed. In this respect, there should be a fully developed goods market, a fully developed capital market, etc. According to the experts, implementing RMB convertibility will be a process, and it is not proper to get started only after conditions are entirely ripe. There are different views as to which are the most important conditions in the process of phased implementation. According to one view, keeping balance-of-payments equilibrium, having abundant foreign exchange reserves, and completing the transformation of enterprises' operating mechanisms are the main conditions, for keeping balance-of-payments equilibrium and having abundant foreign exchange reserves are the foundation for confidence in the value of the RMB, while the existence of enterprises' self-constraint mechanisms is the precondition for maintaining equilibrium between foreign exchange supply and demand. According to another view,

the fact that foreign exchange reserves are not abundant has been caused by the reduction in foreign exchange supply resulting from overly stringent foreign exchange controls and the irrational exchange rates. Therefore, to increase foreign exchange reserves, it is necessary to adjust exchange rates to keep the rates at a proper level (to eliminate the phenomenon of overvaluation of the RMB), and to relax foreign exchange controls. In this way, supplies of foreign exchange will grow, leading to increased foreign exchange reserves. According to this view, having a certain amount of foreign exchange reserves should not be a precondition for implementing RMB convertibility. Implementing RMB convertibility and increasing foreign exchange reserves mutually promote each other.

3. The steps for implementing RMB convertibility and operational plans

First, it is necessary to resolve the issue of convertibility in regard to the current account balance of international payments. According to the experts, the specific steps should be as follows:

Near term: In the process of one to three years, actively create conditions, promote the introduction of uniform RMB exchange rates, and introduce rational exchange rates.

Medium term: After three years, implement current-account convertibility for the RMB.

Long term: Implement capital-account convertibility for the RMB, that is, to achieve full RMB convertibility.

The scholars and experts proposed different near- and medium-term operational plans.

Plan one: "Convert all foreign exchange, and conditionally provide all the foreign exchange demanded." According to this plan, after uniform RMB exchange rates are introduced, abolish the foreign-exchange retention system, and adopt the practice of converting all foreign exchange earned. The state will no longer exercise control over the foreign exchange that enterprises need for buying imports, and enterprises will buy the needed foreign exchange from foreign exchange banks at the market-based uniform floating exchange rates. But, through relevant trade agencies, the state will exercise control over the composition and quantity of imported goods. The completion of this change will mean the achievement of current-account convertibility for the RMB. As conditions become ripe, the scope of RMB convertibility will expand gradually.

The arguments for this plan are as follows: (1) In view of the fact that the RMB exchange rate system is currently—in a significant way—ancillary to the foreign trade system, this plan will maintain the relevant government agencies' authority for controlling and regulating imports, thereby maintaining foreign trade policy's role as the instrument of inducing desired

developments. That is, the state will still use the import-regulation approach based on regulation of three categories of goods. Meanwhile the share of goods under control will be reduced. (2) Presently a large amount of foreign exchange has already entered the swap markets, and thus it is no longer very meaningful to keep the foreign-exchange retention system. (3) The current quota-retention method already entails full conversion of foreign exchange. This is the basis for RMB convertibility, and an abundant supply of foreign exchange can be assured. (4) As the foreign exchange-earning enterprises can be assured of getting needed RMB funds in a timely manner through fully converting their foreign exchange, the enterprises will not have increased burdens for themselves. At the same time, as uniform RMB exchange rates will have been introduced, the official rates will move toward the swap rates, that is, that the RMB will further devalue. This will be helpful to enterprises engaged in exporting goods to earn foreign exchange. (5) With all foreign exchange converted, enterprises will no longer bear exchange rate risks, and the relevant matter will be handled by the banks specializing in foreign exchange business. In this way, the state will suffer less loss. (6) After the introduction of uniform exchange rates and the abolition of the foreign-exchange retention system, it will no longer be necessary for enterprises to go to foreign-exchange regulatory agencies; enterprises can conduct the selling and buying of foreign exchange needed for trade purposes directly through the banks. In this way, administrative interference can be reduced.

Plan two: "Change quota retention into spot exchange retention, and gradually implement RMB convertibility through developing the foreign-exchange swap markets." According to this plan, after handing over to the state the required share of foreign exchange earnings at the official exchange rates, enterprises will hold foreign exchange in the form of spot exchange. Enterprises can trade in spot exchange at the rates effective on foreign exchange markets. For now, it is proper to allow enterprises to sell foreign exchange; to have the purchase and use of foreign exchange controlled by the relevant government agencies according to their industrial policy; and to implement conditional RMB convertibility. With the expansion of the foreign-exchange swap markets, official exchange rates should be abolished, uniform exchange rates should be introduced, and partial RMB convertibility should be introduced. At the same time, a foreign-exchange stabilization fund should be established so as to enhance the capacity to regulate and control exchange rates.

The arguments for adopting this plan are: (1) It is conducive to the formation of fully developed market mechanisms. As those supplying and demanding foreign exchange will have both entered the foreign exchange market, the exchange rates will reflect the strengths of the two sides relative to each other, and would thus to some extent represent market equilibrium rates. (2) The increased autonomy of enterprises and the increased

power over the use of foreign exchange on the part of enterprises which earn foreign exchange will make enterprises the entities that make business decisions. (3) The plan will create a situation convenient to enterprises, and will simplify the procedures. (4) The fact that enterprises will bear larger foreign exchange risks will push enterprises to move toward the market and force enterprises to increase their risk sensitivity. (5) The plan is conducive to breaking up the monopoly of foreign exchange companies, and to changing the situation where state-owned foreign trade companies sell foreign exchange quotas and thus control foreign-exchange swap rates, thereby creating a better situation. (6) The central bank will enhance its regulation and control capabilities. As the conversion of RMB will be mainly carried out on the foreign exchange market, the effect of the central bank's exchange rate policy will become stronger. At the same time, under the spot-exchange retention system, enterprises will have the relevant amounts of their RMB funds tied up; when enterprises try to obtain RMB funds through selling foreign exchange or increasing borrowing, it will become easier for the central bank to harmonize its monetary and exchange rate policies, resulting in increased regulation and control capabilities. (7) In view of the results of trial operation of the system of spot exchange retention in the Hainan and Shenzhen regions, it is proper to adopt this approach; and it will be difficult—in practice—to go back to the practice of full conversion of foreign exchange.

Plan three: In the near term, nontrade current-account convertibility of the RMB should be implemented. Specifically: Nonresidents should be allowed to freely buy RMB and sell foreign currencies when entering the country; and when they leave the country, they should be allowed to buy RMB and sell foreign currencies on the basis of examining the "memo." Restrictions on selling foreign exchange to domestic residents should be reduced. For instance, those going abroad to teaching, vacation, and visit relatives can be allowed to buy approved amounts of foreign exchange each year. In this regard, the relevant government agencies will control the overall quantities. The direct result of this plan will be that there will not be a jolting impact on domestic society, while a positive step will have been taken to implement RMB convertibility.

Annual Tax Evasion Estimated at 100 Billion Yuan

93CE0655A Beijing ZHONGGUO XINXI BAO in Chinese
21 May 93 p 4

[Article by Shi Qian: "The Black Hole in the State's Tax Revenues"]

[Text] According to estimates made by authoritative people, the loss of the state's tax revenues amounts to at least 100 billion yuan each year. 100 billion yuan! More than the sum of annual fiscal revenues of all county-level governments! Enough to repay all the state's domestic debts accumulated over 12 years! Enough for building 80 Yangpu bridges! Enough for hosting the Olympic Games

17 times! Enough for building five Beijing-Kowloon railway lines! Enough for building three more Baoshan Steel Complexes or completing two more Three Gorges projects! What an astonishingly large and disconcerting black hole in the state's tax revenues!

The annual nationwide tax inspection has been carried out for seven consecutive years, but the "black hole" is getting larger each year. The loss of the state's tax revenues is of fairy-tale magnitude.

This may be something that has "Chinese characteristics." Since 1985, the State Council has each year devoted large amounts of human and financial resources to conducting nationwide tax, financial, and price inspections. The "nationwide inspections" have been done for seven years in a row. Just in the area of tax revenues, the funds involved in uncovered cases of violations of various disciplines totalled 90.1 billion yuan. This sum only involves the cases of violations that have been uncovered. What about those cases of violations that it has been unable to uncover or is impossible to uncover?

According to estimates made by authoritative people, the loss of the state's tax revenues amounts to at least 100 billion yuan each year. To use Arabic numerals, it would be necessary to put eleven zeros after one. What a large number! Almost in the domain of fairy tales. It is hardly believable; but you still have to believe it.

The number 100 billion is rather abstract to us. What does 100 billion really mean?

First, let us look at the following group of figures:

In 1991, the fiscal revenues of county-level governments nationwide totalled 89.7 billion yuan; the expenditures totalled 104.2 billion yuan.

In 1992, the fiscal revenues of the entire country totalled 418.897 billion yuan, of which tax revenues accounted for 313.879 billion yuan.

In 1992, the fiscal deficits of the entire country totalled 23.749 billion yuan.

The central government's fiscal appropriations for above-the-line expenditures for 1993 included 91.28 billion yuan for the development of organs of state power.

In 1981-1992, cumulatively, state bonds worth over 160 billion yuan were issued; currently, domestic debts total approximately 130 billion yuan.

The investment in the Yangpu Bridge in Shanghai Municipality totalled 1.3 billion yuan.

The investment related to the 2000 Olympics for which China is bidding is estimated to total 6 billion yuan.

The investment in the Beijing-Kowloon (Beijing-Shenzhen) railway line—which runs through nine provinces and municipalities—totals over 20 billion yuan.

The investment in the Baoshan Steel Complex project totalled 30 billion yuan.

The static investment in the Three Gorges Dam project totals 51.7 billion yuan (at 1990 prices).

That is, 100 billion yuan is:

More than the sum of fiscal revenues of county-level governments nationwide;

A sum of which the loss is equal to the loss of one-fourth of the national tax revenues for 1992;

Enough for eliminating the state's fiscal deficits for four to five years;

Enough for one year's expenditures for the development of organs of state power;

Enough for basically repaying the state's domestic debts accumulated over the 12 years;

Enough for building 80 Yangpu bridges, or for hosting the Olympic Games 17 times, or for building five Beijing-Kowloon railway lines, or for building three more Baoshan Steel Complexes, or for starting almost two more Three Gorges projects...

Such is, of course, just talk. It is totally impossible to plug the "black hole" through which 100 billion yuan vanishes each year. It is not proper to deny the achievements produced by the nationwide inspections carried out in the seven years, but the total sum of money involved in all the uncovered cases of violations during the seven years is smaller than the sum of money lost in one year.

The sight of the bleeding body of the republic pains us, but it also makes us ask ourselves hard questions and reflect.

An article in Hong Kong's CHING-CHI JIH-PAO exclaims alarmingly: On the mainland, "99 percent of the businesses evade taxes, and everyone pays less tax than they should." 1993 will be another year of tax evasion.

Tax evasion, tax evasion. Is there not—on the mainland—a great deal of tax evasion going on? According to an April 6 article in Hong Kong's CHING-CHI JIH-PAO, on one occasion, Shenzhen inspected 2,664 individual business operators and contractors, and discovered that 1,883 of the operators and contractors had committed tax evasion, that is, that over 70 percent of those inspected had committed tax evasion.

This has not been the "highest percentage." Higher percentages in this regard can be found almost everywhere. According to the mainland's JINGJI RIBAO, tax revenues—the blood in the body of the state—are being lost in a substantial way. Fifty percent of the state enterprises—which provide the main part of the blood—have committed tax evasion; 60 percent of the township enterprises—which provide new blood—have committed tax evasion; 80 percent of the individual business

operators—who provide small parts of the blood—have committed tax evasion; and, 95 percent of those individuals paying income adjustment tax—who provide mixed blood—have committed tax evasion. As shown above, the percentage involved in each case is higher than in the preceding case. However, according to an analysis of the reports made by people from various localities, a greater part of the tax evasion—in terms of absolute amounts—has not been accounted for by individual taxpayers, but by those large and medium-sized “state” or “collective” enterprises.

Some individual business operators argue unabashedly: Now, it is not easy to make money, as there are all kinds of expenditures. Without committing tax evasion, it would be totally impossible to make any money and get rich, however capable one may be.

The directors and managers of some enterprises would each say unblushingly: The enterprise is not owned by me alone; in the final analysis, any tax evasion that has been committed has been committed for the sake of the state and the collective.

Some plant directors and managers would complain: Currently, the competition is unfair, and the burden on enterprises is too heavy. If taxes had been paid exactly in accordance with the tax rates, we would have already failed.

—In 1986-1992, Liu of Shangqiu, Henan, ran a kiln which had been contracted to him by a military unit. He committed tax evasion totalling over 140,000 yuan, by using receipts for payments received, leaving behind invoices, and giving invoices which started with large numerals but ended with small numerals.

—An enterprise in Shenzhen, Guangzhou, produced a phony account showing under 700,000 yuan in the volume of business, while actually having a volume of business totalling 3 million yuan.

—According to a report from a city in Shandong, of the nearly 100 enterprises in a county under the jurisdiction of that city, many evaded taxes through dividing the overall figures into smaller parts. A garment factory listed 700,000 yuan of its revenues and profits on the account of a newly established factory, thereby reducing the garment factory's value-added tax burden by 99 percent. This act alone resulted in tax evasion in the amount of over 100,000 yuan.

—A chemical factory in Yanshi County, Luoyang, Henan, provided an import-export company in Shenzhen with 31 blank invoices, thereby illegally getting 143,500 yuan. The other party used the invoices to demonstrate sales totalling over 20 million yuan, thereby getting tax refunds worth 2.5 million yuan from the state.

—While running a town's general store which had been contracted to him, Tang of Jiangling County, Hubei Province, carried out large-scale profiteering activities

relating to tobacco through using the reference letters provided by the town's supply-marketing cooperative. He failed to report sales revenues totalling over 1.1 million yuan, and the resultant tax evasion amounted to over 36,800 yuan.

These cases are but “a drop in the ocean,” and are no match for the large tax evasion cases which have gained “nationwide notoriety.” However, those cases are enough to show the general state of affairs. If such conduct is not suppressed, then the nation will collapse, and the body of the republic will be devoured by the “black hole.”

Over 100 years ago, Marx honored taxation with the title of the fifth god. Over 100 years later, tax officers are regarded as “big black wolves” in the New China

Turning from a “god” to a “big black wolf” is not a case where some errors have been made as it is fashionable to say nowadays, but the truthful reflection of how civilized a country or nation is. In view of this, the state has made April each year the “Nationwide Tax Propaganda Month.” Perhaps coincidentally, under the law of the United States of America, April 15 each year is the deadline for filing income tax returns. Before that day ends, every citizen who is required to pay taxes—from the President to an ordinary person—must, on his own, report to the tax agency his total income and the amount of tax due.

This shows that whatever the social system, it is the duty of citizens to pay taxes in accordance with the law.

Just as Marx said, taxation manifests, economically, the existence of the state.

But, the actual situation is saddening. The same sacred national emblem, when placed on the headgear worn by a tax officer, is viewed very differently by taxpayers from how it is viewed when placed on the headgear of a police officer or a judge.

Do you dare to lightly use force against a police officer or a judge? But, one dares to use force against a tax officer.

On 29 October, 1989, Jing Xue, an individual business operator engaged in the business of aquatic products, beat Jiang Baiqing, director of the Xiaonan Inspection and Collection Station of the Lucheng County Tax Bureau, to death, because of his refusal to pay 6 yuan worth of tax.

On 12 January, 1991, when inspecting a truck carrying smuggled cigarettes, Zhen Xinhua, inspector at the Zhengjiawu Joint Inspection Station in Pujiang County, Zhejiang, was pushed off the fast-moving truck, and died immediately.

On 20 April, 1991, while collecting taxes in Xiahe Township, Yao Yuanling, a tax assistant at Fengshan County, Guangxi, was hit on the head—with an ax—by a scoundrel, and died in the line of duty.

On 15 June, 1991, while performing official duties, Fan Quanli, tax coordinator of Zhushan County, Hubei Province, was stabbed—with a butcher's knife—in the heart by the tax resistor Wang Degui, and died gloriously.

On 27 August, 1992, while collecting tax from Sun—a fish vendor, Zhao Weigang, a tax assistant at Caizhou City, Shandong, was stabbed in the chest by Sun with a self-made dagger, and died.

On 14 September, 1992, while collecting tax from Xu Xiaolan doing business at the section of individual food merchants, four tax workers of the trading market taxation office of Jiangling County, Hubei Province, were attacked by Xu's relative Zhang—a temporary worker at a police station—in front of over 10 police officers and over 100 bystanders; as a result, one tax cadre suffered internal wounds, and was unable to report for duty for more than a month.

At 2300 on 24 October, 1992, holding a kitchen knife, Liu Zhengwu, an individual business operator and former labor camp inmate, demanded a tax refund from Yan Guang, a substitute collector at the Puji Tax Office in Jiangling county, Hubei Province, and wounded—with his knife—Yan on the head, neck, and waist; he also forcibly took 60 yuan and six packs of cigarettes from Yan.

The shocking and disconcerting actual situation.

According to the statistics of the State Taxation Administration, in 1987-1991, the 42 provinces, autonomous regions, municipalities under the direct jurisdiction of the central government, and cities with separate sections in state plans saw—in all—14,176 cases of violent tax resistance. There were 1,916 cases of attacking tax offices, and 12,073 cases of physically assaulting tax workers. In all, 12,671 tax workers were beaten. As a result, 1,452 tax workers were seriously wounded; 36 became disabled; and 22 died. In addition, the first half of 1992 saw 1,004 cases of violent tax resistance, with 860 tax workers being beaten. What has been even more tragic was that when the law-enforcing tax workers were being beaten, some citizens who were bystanders would shout: "They deserve the beating! Beat those big black wolves' to death!"

There are people like "Lou Ashu" among tax officers, too, as a tax cadre told me

I did not plan to write this section originally. Friends working in the tax agencies said: "You must write it. An important reason for the existence of the 'black hole' has been that a few tax workers knowingly violate the law, and obtain illegal gains." So, I started to read the files of a few cases in my hands. I did not expect that the shadow on my heart would be so long.

Embezzling 160,000 yuan in order to have the money to engage in stock trading. Shao Weimin, 23, was a cashier at the fund management section of a tax bureau in Hangzhou City. In 1992, as there was a "stock fever"

across the country, he suddenly became "excited." It was totally impossible to engage in stock trading with the small amount of money coming from his wages. Thus, one day, he used the scissors-and-paste method to change the amount of debt payment made by a commerce bureau in Hangzhou from 152,000 yuan into 50,000-plus yuan, when the other accountants working in the same office had left while the seals were left on the desk. Afterwards, he used transfer checks to deposit the over 100,000 yuan—in several installments—to the accounts of other units, and then withdraw the sum of money in cash. After that, Shao could not stop himself. In the short period of four months, Shao did the same thing four times, embezzling a total of over 160,000 yuan of public funds. He used a part of the money for engaging in stock trading or buying high-interest bonds, and a part of the money to buy meals, drinks, luxury suits, sound equipments, and a beeper, spending freely so as to have a "good time."

Becoming—because of the bound of "brotherhood"—a tax evader by exceeding the allotted authority. On 14 May 1992, a news report aroused strong reactions in Honghu City, Hubei Province. Yang Chuanlin, a former tax collector at the Maojiang Tax Office, was dismissed from his position in the government and sentenced to five months in prison for violating tax laws: he—exceeding his authority—provided a taxpayer with invoices which were then used to hide business revenues, thereby becoming guilty, together with the other person involved, of the crime of tax evasion.

From August 1989 to January 1991, the individual business operator Huang Shaopu, in the name of the Wulinzhen Construction Company of Honghu City, secured, in his position as the contractor, projects with costs totalling 1.306 million yuan. In order to evade taxes, Huang only reported 923,000 yuan of his business revenues to the tax agency. At Huang's requests, Yang Chuanlin who had not been authorized to issue invoices gave Huang five uniform invoices showing sums totaling 1.306 million yuan on two occasions; the amount involved was 383,000 yuan more than the reported taxable amount, and the resultant tax evasion amounted to 12,300 yuan. In his confession, Yang said: "A friend asked me for help, so I had to exceed my authority and give the invoices. Who would have thought that this would have made me a person committing the crime of tax evasion."

A Conclusion which is not a conclusion

Every citizen is a taxpayer of the republic. With the development of market economy, the number of citizens required to pay taxes will increase gradually. I hope that every family and citizen in our country will be proud of paying taxes, so that the "black hole" in the body the republic will no longer exist."

SMALL-SCALE ENTERPRISES

Private Businesses Flourish in Various Regions

93CE0578A Beijing JINRONG SHIBAO in Chinese
22 May 93 p 1

[Article by Wang Junsheng (3769 6511 3932): "Private Enterprise in China"]

[Text] Spring is very much in the air, and trees are turning green. It's March in Beijing. Twenty delegates from the private sector of the economy have been elected members of the Eighth CPPCC National Committee, China's highest organ of political consultation and democratic supervision.

This is an event of historical significance on China's political stage.

Rising With the Spring Tide

Private enterprises began to move ahead with unusual agility as soon as they gained legitimate status as a new force in China's economic scene. Their impact was felt throughout the country. By 1992, with a total output value of 20.5 billion yuan, the private sector made up one-third of the national economy. Especially impressive is that the private sector has grown at an annual rate of 30 percent in the past few years, like a spring tide sweeping across the country, thawing ice and snow and bringing the land back to life.

Shanghai: After the first private enterprise, the Ba Da Technology and Trade Company, was established in 1988, 207 others followed closely behind in the same year. By the end of 1992, nearly 3,000 private enterprises were in business in the city, funded by more than 3,400 investors, employing 38,000 people, and engaged in nine major trades, including industry, construction, communications and transportation, commerce, catering, service, repairs, scientific and technological consultation, and so forth.

Liaoning: By the end of 1992, the number of privately owned industrial and commercial enterprises increased to 63,000, employing 1 million people and paying 1.14 billion yuan in taxes and profits each year to the state.

Shandong: More than 2.67 million people are engaged in private business, paying 1.38 billion yuan in taxes and profits to the state each year, which is equivalent to one-eighth the province's financial revenue.

Hubei: The private sector is growing with even greater momentum. Since 1992, a large number of private enterprises of the scientific and technological type have opened for business. There are more than 600 privately owned scientific and technological enterprises, including 86 limited-liability companies, in the three cities of Wuhan alone. These new private enterprises are becoming the main force for the development of new technology and new products in the province.

Sichuan has reaped great benefit from the private economy. In the surging tide of the vigorously developing private economy, the province, with a daring spirit to blaze new trails and try new things, has again moved one step ahead of others. Following the establishment of the individual and private economy experimental zone in Chenghua District, Chengdu City, a provincial-level private economy experimental zone, designed specifically to provide a place of free operations for private enterprises, will be established in Xinjin County. According to the initial plan, by the end of the Eighth Five-Year Plan, the experimental zone will be home for 1,000 private enterprises, including 10 with an annual output value of 50 million yuan or more, 50 with 10 million yuan or more, 100 with 5 million yuan or more, and 50 of the three kinds of partially or wholly foreign-owned enterprises. They will have a total annual output value of 1 billion to 1.5 billion yuan and will pay more than 50 million yuan in taxes to the state.

Fujian: The strength of the private sector cannot be taken lightly. In the past three years, this new economic force, which has come out from the "underground" and become legitimate, has created a total output value of 30.1 billion yuan, earned \$95 million in foreign exchange, turned over to the state 3.7 billion yuan in taxes and profits, and provided jobs for 1.37 million people.

According to press reports, a private enterprise in Beijing has been approved by Beijing's industrial and commercial administrative departments to manufacture aircraft. A light airplane which can carry three or four people will be produced soon.

Economists assert that there are at least 200,000 private enterprises with 100,000 yuan or more each in China today, operating with outstanding results in the markets.

The State Council Development Center disclosed that as of the end of March 1993, there were 140,000 private enterprises in China, with a total of 13 billion yuan in fixed assets and circulating funds, and among them more than 50,000 have 1 million yuan or more of their own funds. In Guangdong, Zhejiang, Fujian, and other prosperous provinces, some enterprises are employing more than 1,000 workers each.

Outstanding Performers

Among the tens of thousands of private enterprises, a number of entrepreneurs, who have courage and insight, dare to take risks, and know how to compete, have come to the fore and achieved one eye-catching success after another in this lively era of market economy.

In October 1992, Shanghai's commerce department was to sell the "permanent operating rights" of seven state-owned stores in the city at a public auction. When the news spread, more than 50 private business owners gathered at the site of the auction, and every one was eager to bid. Among all the strong bidders, Chen Jinyi

[7115 6855 5030], 32, owner of the "Huang Jia Industrial Company," a private enterprise in Zhejiang Province, was the strongest. At a price of 1,451,000 yuan, he bought the "permanent operating rights" of six of the stores and thereby became an instant celebrity in Shanghai. An official of the Shanghai Municipal Industry and Commerce Bureau said that no one among Shanghai's private business owners can match Chen Jinyi in boldness and financial resources.

Legendary Mou Qizhong [3664 0366 0022] had only a dream and 300 yuan, when he first set up a private enterprise. In 12 years of painstaking effort, he has never had any doubt about what he wants, and now he is president of the Nan De Economic Group with more than 300 subordinate enterprises, branches, and offices in Mainland China, Hong Kong, the United States, East Europe, the CIS, and other parts of the world. In early 1992, he made the largest deal in history in nongovernment barter trade between China and Russia—500 carloads of food, clothes, shoes, headgear, machinery, and electrical appliances in exchange for four TU-15M airliners. The bilateral exchange of products had a total value of more than 2 billion yuan. The deal caught the attention of economic circles and news media all over the world, and newspapers and magazines in many countries carried colorful reports on it.

Liu Yonghao [0491 3057 1170], now famous in Sichuan, started his own business in 1982. With 1,000 yuan from selling his family belongings as capital, he began by breeding superior strains, raising quails, and producing feed and developed his business step by step. Now he is the president of the Xi Wang Group of Sichuan, which consists of 13 enterprises, has 130 million yuan at its own disposal, and employs more than 10,000 people.

Chen Yuguang [7115 1342 0342], chairman of the board and president of the Xin Neng Yuan Limited Company of Hainan, China's first private enterprise to offer stock to the public, began by peddling woolen sweaters on a bicycle. With a sharp business mind, he saw opportunities in the market in the early period of China's opening to the outside world. Eventually he became the owner of a company listed on the Shenzhen Stock Market with more than 200 million yuan in assets. At present, he is developing tourism, which has the greatest potential for growth, in Hainan. His new development projects include: the "Huan Le Plaza," a combined tourist shopping and amusement center on the north side of the Haikou Airport terminal; the Hai Jing Garden, a high-class commercial villa; the Shi Mei Wan tourist development zone; the high-class vacation area and Hot Spring Holiday Inn at the Xing Long Hot Spring; and the Da Dong Hai vacation district and shopping center in Sanya City. And this is not all. Ambitious Chen Yuguang is planning to get many big Chinese companies to jointly build a Chinatown in Singapore and make it the wholesale distribution center of all Chinese products in Southeast Asia.

Han Wei [7281 0251], China's chicken king, started in 1984 with 50 chickens and 3,000 yuan and developed by

parlaying his own capital gains. By 1987, the business grew to 100,000 chickens. In 1992, with the support of the State Commission for Restructuring the Economic System and the Liaoning Provincial Government, and with his own eight companies as the basis, he established the country's first private enterprise group. His business is also diversifying.

From the northern frontier region of Nei Monggol, six privately owned aircraft have flown into the blue yonder. They are flying mainly the international routes Huhhot-Beijing-Hong Kong and also to Ulan Bator, Irkutsk, and Osaka, Japan, and the domestic routes Huhhot-Jinan-Shanghai and also Xiamen. It is simply unbelievable that all these planes belong to Man-du-ge-qi [3341 6757 2706 0366], a private entrepreneur of Huhhot, who started as a pedicab and then taxi driver, opened his own business, and made a fortune. He is now planning to build a 14-story aviation building. It is known that he is the first private entrepreneur in China to buy airplanes and use them to fly international passenger routes.

The surging economic tide and the rise of private entrepreneurs like Chen Jinyi, Mou Qizhong, Han Wei, and Man-du-ge-qi are undoubtedly made possible by the changing of China's entire economic structure into one which allows the coexistence of different kinds of ownerships. And the clearly defined property rights and unusual capacity for self-restraint and self-development are the motive force of the private enterprises to "take cities and seize territory" and develop rapidly in the market economy. Growing with an incredible speed and on an unprecedented scale, the private enterprises are like surging waves pushing the national economy forward in the sea of reform and opening to the outside world.

Right or Wrong? Good or Bad?

The trend of the growing proportion of the private sector in the national economy has already caused subtle changes to China's economic base. To developing the economy and increasing the overall national strength, this is a good thing to be cheered about.

In Shaoshan, there is a "Mao's Restaurant" on a hillside right in front of Mao Zedong's former home. The owner, Tang Ruiren [3282 3843 0088], whose house was opposite Chairman Mao's home, once associated with Mao and had a picture taken together with him. In the early 1980's, when Tang Ruiren raised more than 10,000 yuan to open the restaurant, he was censured by not a few local leaders: "Having an individual business right in front of Chairman Mao's former home is bad for Chairman Mao's image and bad for the appearance of Shaoshan." Only when the case was appealed to the governor, was approval obtained for Mao's Restaurant to open for business.

That was something that happened more than 10 years ago. But even today, those who are used to the old system are still so nervously "anti-private" and "capital-phobic."

The owner of an optical equipment and electrical appliance factory tells of his troubles: "Six scientific research projects in the city have won provincial second- and third-class scientific and technological progress awards. Several third-class award winners have had their families' residence changed from rural to nonrural registration according to policy. I have won a second-class award, but my family is still registered as a rural household. Not long ago, a Wuhan company noticed that the quality of the sensors produced by our factory is better than imported products and intended to form a joint development project with us. Later they learned that we are a private enterprise and backed out."

In Fengxian County, Shanghai, known as the "home of furniture," nearly 50 private furniture enterprises sell 20,000 sets of furniture each year, accounting for one-fifth of the Shanghai furniture market. However, most of these enterprises have to change their own identities and borrow the names of state enterprises or Chinese-foreign joint ventures to sell their products in the market.

Up to the end of 1992, private enterprises were still excluded from participating in the development of the Pudong New Zone. This makes many private enterprise owners utterly puzzled. Foreign capitalists can build 20-story and 30-story buildings there, and why are we of "national capital" not allowed to build two-story or three-story ones?

Han Shixian [7281 0057 0341], owner of a private enterprise in Tianjin, has been applying for three years for admittance into the party. The departments concerned maintain that he meets all requirements, but his status as a "private business owner" disqualifies him, and his application is rejected.

According to a survey, to meet their production, operation, and development needs, half of China's private enterprises are forced to disguise themselves as "phony collectives" or "phony three kinds of partially or wholly foreign-owned enterprises." There is, however, not a single "phony private enterprise" in the whole country. This is enough to show that private enterprises are the least favored by policies.

In the face of the surging tide of the developing private economy toward the end of the century, the Chinese, who have followed traditional planning, education, and ideas for decades, are apprehensive and skeptical.

Is developing private economy tantamount to developing capitalism? Will developing the private economy weaken the strength of the state-owned economy? There are different opinions about the private economy, and how should we understand it?

These questions are not only the focus of public concern, but also the hot topics at the press center of the CPC and CPPCC congresses in Beijing in March. On 20 March, at the press conference held by the press center of the two congresses at the Beijing International Hotel, Wan Guoquan, vice chairman of the China Democratic National

Construction Association and member of the Eighth CPPCC National Committee, confidently told Chinese and foreign reporters: "With the leadership of the communist party and the socialist principle of distribution, which is mainly distribution according to work, China will not turn capitalist."

The economic and social benefits produced by the private economy can be described as outstanding. In the past 14 years, the private economy has registered a total industrial output value of 430 billion yuan and a total business volume of more than 1 trillion yuan, turned over to the state more than 95 billion yuan in taxes, and provided jobs for 30 million people.

Shi Shanlin [4258 1472 2651] is president of the Chang Ning Group of Qinhuangdao, one of China's largest private enterprise. In February 1985, he resigned from his job as a senior engineer to contract for a school-run factory in Harbin. Since then, the business has grown at an annual rate of 300 percent and now become a modern enterprise group of the scientific and technological type with more than 3,000 workers and staff members, more than 100 million yuan in assets, and 19 branches in various parts of the country. The full-automatic pneumatic water supply equipment and zero-pressure hot-water boiler developed by him have filled in gaps in domestic production.

He spent 1 million yuan to establish the CHANG NING BAO and paid huge sums to set up the Chang Ning School, Chang Ning Television Station, Chang Ning Art Troupe, and Chang Ning Sports Team. To promote education, he donated 5.2 million yuan to schools.

When one man gets rich, a lot of people benefit. This is the general effect produced by the prospering new type of private enterprise owners under the socialist system. Lan Dafu [5695 1129 4395], of Xiapu, Fujian, who was awarded the title of "advanced individual in national unity and progress," not only owns an edible fungus factory, with integrated seeding, cultivation, processing, and marketing and an annual output value of 1 million yuan, but also provides financial, material, and marketing supports for other growers in his rural neighborhood. As a result, more than 1,000 peasant households in Lan Dafu's rural township have got out of poverty and embarked on the road to common prosperity.

Similarly the rising and growing of the private economy in China is not a weakening of the strength of the state-owned economy, but a powerful complement for the public-owned economy. The national income created by the private sector is paying the necessary cost for China's economic reform and development, and the operational mechanism it has formed is providing job opportunities for the workers removed from the old system and thus reducing the resistance to reform. It has helped the government to gain time and get better prepared materially and psychologically to carry out the tasks of changing the management mechanism of the

large- and medium-sized state enterprises and the functions of government, the two reform projects of decisive significance.

Moreover, some people in the economic circles hold that the private sector not only "makes up the omissions and deficiencies" for the public sector. Its contribution also lies in that while growing up from the market soil to lay the microeconomic foundation for China's markets, it also participates and serves as a reference in the reform to change the management mechanism of the state-owned enterprises.

It can be foreseen that with the mutual infiltration and transformation of the different economic sectors, people's thoughts and concepts will also be changed and remolded. All the fruits of civilization, which were once regarded as symbols of capitalism but can liberate and develop the productive forces, will be "grabbed" with unusual enthusiasm and speed and digested and assimilated. The conceptual revolution will pave the way for the new productive forces to rise and make China prosperous and strong.

FOREIGN TRADE, INVESTMENT

Limitations on Trade With DPRK

93CE0605C Beijing GUOJI SHANGBAO in Chinese
1 Jun 93 p 3

[Article from the Business and Trade Office of the Chinese Embassy in North Korea: "Sino-DPRK Trade Should Be Actively and Soundly Expanded"]

[Text] As (North) Korea and China are neighbors with a strong mutual complementarity in trade, there are broad prospects for vigorously developing bilateral business and trade relations through many channels, on many levels, and in many forms.

While Sino-DPRK business and trade activities are brisk in various forms, such as in cash trade, and particularly in barter trade in border zones, it also needs to be noted that Korea's shortage of export sources and foreign exchange are severely restricting its development of foreign economic relations and trade.

In its foreign trade system, Korea is still practicing a highly centralized planned economy, with imports and exports all occurring according to plan. All imports and exports within stipulated plans are allowed, with those not included in plans requiring additional planning. As to the prices of key staple import and export commodities, such as imports of crude, coking coal, and grain, and exports of rolled steel, cement, nonferrous metals, and

anthracite (smokeless or hard coal), all commercial foreign-transaction prices must be reported for examination and approval to the State Foreign Economic Commission's Pricing Bureau. Only the prices of minor commodities can be set by commercial agencies on their own.

It is understood that Korea now has hundreds of commercial trade agencies of various size, which are relatively independent importers and exporters and have individual foreign-operating rights. This includes many with their own industrial-mining enterprises and commodity-production bases. In addition to managing the products produced by its own industrial-mining enterprises, the state also sets export quotas for a certain amount of key commodities. As to the foreign-exchange earnings from exports of all commercial agencies, except for part that are paid into state revenue, there is also a certain amount of foreign-exchange retention as working capital and for imports of needed equipment, raw materials, and commodities.

While Sino-DPRK trade is now expanding briskly, which is undoubtedly a good thing, many problems still exist. Incomplete statistics from 1992 when Sino-DPRK cash trade began up to the end of March 1993 show that Korea is \$2.87 million in arrears on goods payments. This includes arrears to Chinese-invested enterprises in Macao, to which Korea owes almost \$20 million.

In order to better develop trade with Korea, and to avoid losses to Chinese companies in business relations with certain Korean commercial agencies due to lack of information about the other side, all Chinese foreign-trade enterprises initiating trade with Korea must note the following points:

Group visits must be invited by the other side. As China and Korea do not require visas, unless there are letters of invitation from the other side, there will be no host organization, making it impossible to meet customers once in the country. We should be choosy about clients, instead of being impatient to clinch deals. As those who come are clients, their creditworthiness should be ascertained in advance. Signed contracts must be standardized, with rigorous terms and conformity to international practice. Attention must be paid to exchange-collection security, with issuing being guaranteed by third-country (regional) banks. Barter trade must be in accordance with national regulations, with entrepot trade through third countries prohibited. Contracts must be fulfilled equally, with as much as possible importing first and exporting later for unfamiliar new clients. We must conscientiously adhere to the principles of emphasizing contracts and keeping our word, and stressing quality over quantity. And we need to emphasize national interests, by refusing to compete by exporting at cut-rate prices, or to engage in panic buying by importing at high prices.

Problems of Entrepot Trade Statistics Revisited

93CE0605D Beijing GUOJI SHANGBAO in Chinese
15 May 93 p 1

[Article by telegram from a certain Li (2621) in Hong Kong: "Warrens Market Studies Has Reached a New Verdict That the Major Cause of the PRC-U.S. Trade-Deficit Dissension Is a Difference Over Hong Kong Entrepot-Trade Statistics"]

[Text] A controversial issue encountered in the PRC-U.S. negotiations over MFN status is the current trade imbalance that exists between the two countries. A research report by the Warrens Group's Market Studies Department points out that a key factor in the PRC-U.S. trade-deficit dissension is a difference in statistical methodology for Hong Kong entrepot trade, so that excluding Hong Kong entrepot-trade figures, the PRC-U.S. trade imbalance is certainly not serious.

According to U.S. statistics, the United States had a trade surplus with China prior to 1983, which turned into a deficit later, steadily increasing since 1986 to a record high of \$18.3 billion in 1992.

But according to PRC statistics, China had a trade deficit with the United States from 1980 to 1992, ranging in amount from a high of \$2.2 billion in 1989 to only \$310 billion in 1992.

The report notes that while the trading-partner country jurisdiction -criteria have a two-way impact on both sides, PRC-U.S. statistics show that this two-way impact is certainly not equal. This is because when Hong Kong firms invest in setting up shop on the mainland, they purchase raw materials or semi-finished products for manufacture on the mainland, to which they attach a made-in-China label for shipping back to Hong Kong, where they are packaged and shipped to the United States, meaning that the value of goods flowing from China through Hong Kong to the United States is greater than that of goods flowing from the United States through Hong Kong to China.

In 1992 for instance, in the U.S. statistics of imports from China of \$25.73 billion, \$17.95 billion were actually entrepot products from Hong Kong, including an estimated nearly 80 percent that were finished products manufactured in China for export by Hong Kong firms. So excluding entrepot trade through Hong Kong, China's exports to the United States were only \$7.78 billion, or only \$810 billion short of the figure of \$8.59 billion announced by Chinese customs. Staying with 1992, U.S. statistics on exports to China were \$7.42 billion which, when adding the \$2.33 billion in freight-insurance costs and entrepot trade through Hong Kong to the mainland, make actual exports worth \$10.49 (sic) billion, for which Chinese customs statistics are \$8.9 billion. The over \$1 billion difference here is estimated to be due to certain products whose place of production was unclear being included in Hong Kong's import volume.

Clarification of Regulations on Agent System

93CE0605B Beijing GUOJI JINGMAO XIAOXI
in Chinese 14 May 93 p 2

[Article by Lin Xiaojun (2651 2556 0689) and Yang Liang (2799 0081): "Legislation To Improve the Foreign-Trade Agent System"]

[Text] The practice of an agent system is a key item in our foreign trade reform, as well as a key step in putting China's socialist market economy on the same track with common international practice. In order to regulate the legal relations in our foreign-trade agent activities and ensure the successful operation of our foreign-trade agent system, the Ministry of Foreign Trade and Economic Cooperation [MOFTEC] (formerly the Ministry of Foreign Economic Relations and Trade [MOFERT]) published on 29 August 1991 the "Interim Regulations on the Foreign-Trade Agent System" (abbreviated below as "Interim Regulations").

While the putting into effect of the "Interim Regulations" suited China's foreign-trade reform needs, by bringing order to the internal relations in our foreign-trade agent activities, raising the confidence of foreign firms to trade with us, and being a key indication of the increasing soundness of China's laws concerning foreign affairs and foreign nationals, a year or more of practice shows that these regulations still include points that need further clarification or improvement, which is being provided here:

1. Article 8, Section 2 of the "Interim Regulations" provides that "in all import or export terms agreed to by commissioning parties, commissioning parties may not demand compensation from trustees (agents) due to losses incurred through flaws in the terms per se." In foreign-trade practice, commissioning parties are often small- and medium-sized enterprises which, due to limited trade and legal knowledge, are often not too clear about the accuracy, thoroughness, and legal consequences of contract terms reached through agents with foreign firms, generally expressing simple agreement. But agents are companies and enterprises that specialize in foreign-trade business, having rich foreign-trade experience and professionals who are well-versed in foreign-trade business and the pertinent laws, so should ensure that the contract terms reached with foreign firms have no flaws per se. If there are flaws to which agents are deliberate parties, such as collusion with foreign firms to infringe on the interests of agents, then the legal responsibility of agents can naturally be investigated and affixed. But when the contract terms reached are flawed due to slipups or gross errors by agents, and agents are forced to express passive agreement due to unfamiliarity with foreign-trade business, the interests of agents are bound to be uninsured and, based on the terms of these regulations, agents are forced to be personally liable for losses caused by flaws in contract terms per se, which is obviously unfair. Moreover, Article 16 provides that "when enforcing proxy agreements, agents are obligated

to ensure that import-export contract terms conform to China's existing pertinent laws, regulations, and other management-system provisions, as well as being in line with international practice and being able to safeguard the interests of agents." So when agent error causes flaws in contract terms, this makes it obviously impossible to safeguard the interests of agents, so that the obligation stipulated in Article 16 is not performed. In short, we hold that in this case, agents and commissioning parties should be jointly liable for losses so created. On the other hand, based on the principle of consistency of rights and obligations, if contracts signed with foreign firms contain flaws that profit our side, the agents involved should have an equal share in them.

2. Article 21 of the "Interim Regulations" provides that "if agents cannot fulfill all or part of proxy agreements due to force majeure (uncontrollable events), they are exempt from all or part of their trustee liability." If agents cannot be exempted from their foreign liability in foreign-trade business when uncontrollable events occur, such as when foreign firms hold that the action is not an uncontrollable event and demand that agents fulfill contracts or pay compensation, who is then liable? As the pertinent laws and regulations do not make clear provisions in this case, Article 16 also provides that "if commissioning parties do not fulfill all or part of their agreement due to uncontrollable events, they are exempt from all or part of their liability to agents. If agents cannot be exempted from their foreign liability in this case, agent foreign liability will be the obligation of commissioning parties." We hold that when agent liability cannot be exempted, agents should be obligated for their own foreign liability, which is necessary to reflect the comprehensiveness and consistency of legal provisions. Foreign-trade business is often subject to contracts being fully or partially unfulfilled due to uncontrollable events, and there are also many cases of one party claiming uncontrollable events for which they cannot be exempted, so that the law should make clear provisions on this, in order to give some legal grounds to judicial or arbitration organs dealing with such cases.

3. Article 22 of the "Interim Regulations" provides that "if foreign firms cannot, due to uncontrollable events, fulfill or completely fulfill contracts, or fulfill them late or out of line with import-export contract provisions, then agents should be exempt from liability to commissioning parties, but should obtain proof from the pertinent organs and promptly notify commissioning parties." This case is similar to the above one in that, when foreign firms claim force majeure, if agents cannot be exempted from foreign liability based on the facts and just legal grounds, then who enjoys the profits acquired? In foreign trade, due to international market changes, foreign firms often use force majeure as an excuse to try to get fully or partially out of their contracts. In this respect, in our initial reform and opening period, China's foreign-trade companies often did not dare to argue strongly on just grounds due to inexperience and lack of knowledge about international trade-law and

practice, so were forced to passively accept contract failures due to so-called force-majeure claims by foreign firms. But most of our foreign-trade companies now have professionals who are well-versed in international trade affairs and legal knowledge, and have accumulated rich experience. So when foreign firms request exemption from contract obligations due to force-majeure claims, China's foreign-trade companies can, based on the facts and pertinent grounds presented by foreign firms and in line with international practice and contract terms, conscientiously study and make correct judgments. Liability will naturally be exempt in genuine cases of force majeure, while false force-majeure claims will be argued against strongly on just grounds, with firm demands that foreign firms fulfill contracts or compensate for resulting losses. In this case, we hold that if commissioning parties actively support and help agents in arguing strongly on just grounds, the resulting profit should be shared by the two parties in rational proportions. But if commissioning parties passively accept foreign-firm demands, and are unwilling to actively strive for their own interests, leaving agents personally liable for the costs of investigation and obtaining of proof in negotiating with foreign firms, then agents alone should enjoy the resulting benefits. This is consistent with the spirit of the provisions in Article 24.

Anecdotal Information on Border Trade Problems

93CE0605A Beijing ZHONGGUO MAOCU BAO
in Chinese 13 May 93 p 2

[Article by Li Dianwen (2621 3013 2429): "A Review of Sino-Foreign Border-Trade Disputes"]

[Text] As China's reform and opening have been gradually intensified, Sino-foreign border trade has made considerable progress in recent years, which has played a positive role in expanding international economic cooperation, speeding up the development of China's national economy, bringing market prosperity, and increasing cash incomes, with border trade acquiring a gratifyingly brisk momentum. But this great sea of border trade has certainly not been all smooth sailing, with several cases of unresolved border-trade disputes showing its whirlpools and submerged reefs.

A border-trade company (abbreviated as the Chinese party) in a certain county signed a barter-trade contract on the Chinese party's shore with a cooperative (abbreviated as the foreign party) in a certain country's coastal-border zone. The contract provided that the Chinese party would supply the Russian party with beer and cockroach insecticide, while the foreign party would supply the Chinese party with chemical fertilizer and codfish, with each side providing goods worth 999,000 Swiss francs, and the Chinese party delivering the goods first, and the foreign party delivering later. So the Chinese party delivered according to contract provisions two batches of goods in 1990, worth a total of 378,900 Swiss francs. But the foreign party refused to live up to its side of the contract after receiving the goods, with the

Chinese party's repeated sending of envoys to press the foreign party for the goods having absolutely no results. It is understood that the foreign party was a private leather-bag company that exploited the Chinese party's impatience to make a quick deal to lure the Chinese party into delivering the goods first, after which it obstinately refused to honor its contract. This left the Chinese company no choice but to bring suit at the China International Economic Relations and Trade Arbitration Commission in Beijing in April 1992, the response to which was that the case was one of civil border trade, so would not be heard. Finally, the Chinese party sent an envoy to that country for negotiations, which the foreign party's legal representative dodged, forcing the Chinese party's envoy to take the initiative to go to the foreign party's house for negotiations. The foreign party responded that it had no goods, so could not live up to the contract, which caused the Chinese party business losses of 1.03 million yuan RMB. So the Chinese company was unable to pay either its domestic suppliers for their goods or its bank loans, leaving its operations in a mess.

A border business and trade group limited liability company (the Chinese side) in a certain city signed a barter-trade contract with the executive committee's trade office in a certain country's border zone in 1988, in which the Chinese side actually delivered goods worth 1.9369 million Swiss francs to the foreign side, while the foreign side actually delivered goods worth only 986,000 Swiss francs to the Chinese side, leaving the Chinese side with a 950,000 Swiss franc deficit. These two parties signed another barter-trade contract in 1989, in which the Chinese side actually delivered goods worth 2.02 million Swiss francs to the foreign side, while the foreign side actually delivered only 136,000 Swiss francs worth of goods to the Chinese side, leaving the Chinese side with another deficit of 1.884 million Swiss francs. Then in 1990, the two parties continued to sign barter-trade contracts, in which the Chinese side actually delivered to the foreign side goods worth 10.04 million Swiss francs, while the foreign side delivered only 5.88 million Swiss francs worth of goods to the Chinese side, leaving the Chinese side with yet another 4.16 million Swiss franc deficit. The Chinese side's deficits for these three years added up to 6.994 million Swiss francs. In order to make up these deficits and put their trading-partner relations in order, the two parties signed an agreement in June 1990 for the foreign side to compensate the Chinese side for the goods that it had delivered in barter trade, with full compensation to be made by the end of 1990. But by the last half of 1991, the foreign side began to stop deliveries, openly refusing to make them by March 1992. So the Chinese side sent an envoy to that country to negotiate, who was unable to resolve the issue despite meetings with the foreign side's coastal zone executive committee vice president, the commercial concern's deputy manager, and the oriental company's manager. In July 1992, the Chinese side's municipal government leadership reported the matter to a senior border-zone advisor to that country's president who was visiting

China, asking the foreign side's government to help in clearing up the trade deficit. Later the Chinese side sent another envoy abroad to negotiate, whereupon the two sides signed an agreement in January 1993 for the foreign side to supply goods worth 20 million Swiss francs to the Chinese party, while the Chinese side was to provide only 15 million Swiss francs worth of goods to the foreign party. But the foreign side's lack of coordination and excuses finally caused the Chinese side a deficit of 5.53 million Swiss francs, or 99.63 million yuan RMB, which is still outstanding to this day. With such repeated setbacks, inability to stop, and wishes to bring suit but fear of losing a trading partner, how could this case have been settled easily?

In border barter-trade with surrounding countries, the export restrictions on the foreign side's business enterprises, the nondelivery of goods according to contract terms, and lack of designated delivery also create irretrievable business losses for Chinese enterprises. Such cases are nothing new, as can be seen from the following two examples:

A. The Yaohua Border-Trade Co (the Chinese side) in a certain city signed a barter-trade contract with a consumer-service company in a certain foreign country, providing that the foreign party would supply the Chinese side with codfish, timber, and wood slabs worth 800,000 Swiss francs, while the Chinese party would provide the foreign one with an equal value of cloth material and videotape. While the Chinese side delivered 530,000 Swiss francs worth of goods to the foreign party in 1990, the foreign party did not deliver any goods. After repeated pressing by the Chinese side, the foreign party delivered 90,000 Swiss francs worth of timber and wood slabs in December 1990, after which it stopped deliveries, creating a trade deficit for the Chinese side of 440,000 Swiss francs, or 790,000 yuan RMB. So from 1991 to 1992 the Chinese side sent repeated envoys abroad to negotiate, to whom the foreign party gave the excuse of being unable to get an export license for its inability to deliver. Later, through negotiations with this country's technological commission, the foreign party agreed to substitute Kamasi motor vehicles for the contracted goods, which have still not been delivered.

B. In August 1990, the Yaohua Border-Trade Company signed a barter-trade contract with an industrial-commercial association in a certain foreign city, in which each side was to barter goods worth 900,000 Swiss francs. The contract provided that the foreign party would first deliver some chemical fertilizer, after which the Chinese side would deliver its contracted goods to the foreign side. By the end of 1990, however, the Chinese side had delivered according to contract all 900,000 Swiss francs worth of its goods, while the foreign party had delivered only 3,000 tons of chemical fertilizer to the Chinese side, or 2,000 tons short, creating a 360,000 Swiss franc trade deficit for the Chinese side. In 1991, when the Chinese side was repeatedly pressing the foreign party for delivery, the foreign party proposed

substituting Kama motor vehicles on the excuse that it was losing money in chemical fertilizer, to which the Chinese side was forced to agree after repeated negotiations had come to no end. But what was actually delivered were old military vehicles, causing the Chinese side losses of 450,000 yuan RMB. Such delivery of undesignated goods, substitution of inferior goods, and retraction of creditor's rights is a losing proposition.

In addition, in cash trade, it sometimes occurs that the Chinese side pays for the goods and then waits a long time for delivery. The Xinglong Trade Company (the Chinese side) in a certain county signed a cash contract with a municipal-level aquatic-products company in a certain country for the purchase of 1,000 tons of flounder. The contract provided that the Chinese side would pay in rubles before 30 July 1992, while the foreign side would deliver the goods on 30 October 1992. But while the Chinese side paid on time, the foreign party was slow to deliver the flounder. So the Chinese side's legal representative went personally to that country and, after over four months of difficult negotiations, the foreign party finally delivered a little over 300 tons of flounder. When the Chinese party discovered that the foreign side was intentionally violating the contract, and was taking inappropriate steps to urge the foreign representative to stay there, it pressed the foreign side, which finally delivered another 400 tons of flounder by the end of 1992. While contract-agreement was also reached on the remaining 300 tons, the Chinese side had missed its sales opportunity, so it had trouble making up its business losses.

These cases of Sino-foreign border-trade disputes can teach us the following lessons: 1) While strictly observing contracts and maintaining China's reputation, we must also learn how to protect our side's interests in border trade. 2) We need to thoroughly understand our trading partners' national conditions, public feelings, commercial affairs, and conditions, and must not sign contracts hastily or act blindly. 3) We need to change where necessary, and seize opportunities to change old methods. 4) We need to establish as quickly as possible Sino-foreign bilateral judicial-assistance relations, in order to promptly change China's lack of legislation, fill up our judicial-jurisdiction gaps, and protect our border-trade rights and interests with laws. 5) We need to constantly sum up experiences and lessons, and provide extensive publicity and education to guide our border trade to sound development.

TRANSPORTATION

Autonomy for Civilian Airlines, Airports Urged

93CE0653A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 5, 5 May 93 pp 58, 59

[Article by Zhang Dezhi: "On How Civil Aviation Enterprises Can Move Toward the Market"—edited by Lin Daojun]

[Text] The development of civil aviation directly affects the work in many other sectors. This is commonly understood. But, the situation inside the civil aviation

enterprises are not well known to people outside the civil aviation sector. Therefore, it is necessary to inform people in the business and academic circles of the problems facing the civil aviation enterprises and some of our views, so that there can be exchanges of views.

I. Why Is It Necessary To Make the Organizations Engaged in Civil Aviation Enterprises?

For as long as several decades, China's civil aviation industry was managed by the air force, and a paramilitary system was used. Such a highly centralized, planned system was an inevitable choice based on historical circumstances in the beginning stage of the civil aviation industry, and played some positive role. But, such a system which did not pursue economic efficiency seriously hampered the development of productive force. Especially, since the start of the reform and opening to the outside world, with the development of the economy, the gap between the civil aviation industry's capacity and the demand of society has become too large. However, for the near future, the state will neither be able to invest large amounts of funds, nor continue to develop the civil aviation industry on the basis of the original model. Thus, reforming the civil aviation system becomes unavoidable.

In early 1980, Comrade Deng Xiaoping proposed that the organizations engaged in civil aviation should become enterprises. In March that year, the Civil Aviation Administration changed from being under the supervision of the military to being under the supervision of the State Council. In 1987, the State Council issued the Plan on Measures to Implement the Reform of the Civil Aviation Management system. From then on, the civil aviation management system has been undergoing substantial reforms. Separating government from enterprises, streamlining administration, and delegating power were the main objectives of the civil aviation reforms at that time. Through adopting reform measures, the four-tier—the Civil Aviation Administration, regional administrations, provincial-level civil aviation bureaus, and airports—management system has been established. Steps have also been taken to turn organizations engaged in civil aviation into enterprises.

II. Can Civil Aviation Enterprises Move Toward the Market?

According to the original plan on the reform of the civil aviation system, airlines and airports should become independent enterprises and legal persons, and should operate on the basis of having management autonomy, have independent responsibilities for profits and losses, develop independently, and exercise self-restraint. There should be proper competition among the airlines. Airports should become independent, and provide good services for all the airlines on an equal basis. The airlines and airports should respectively reach contracts with the state, and employ the system of responsibility for the general manager for accomplishing the targets which are set to be accomplished during the term of office. Most of

their profits should be used for expanding reproduction; and a part of the profits could be used as employees' bonuses and welfare funds.

However, the actual results have not been satisfactory. Take the example of the policy of "streamlining administration and delegating power." Theoretically, the distribution of power and responsibilities and the relations between government and enterprises are clear. But, actually, much of the power which should have been delegated has yet to be delegated, and there are still too many "mothers-in-law." Especially, in regard to financial power, the airports are only authorized to make decisions on the use of funds amounting to no more than 2,000 yuan. The power over wages and bonuses and the power over personnel matters have not been totally delegated. The airports' management autonomy is extremely limited.

Take the example of the Wenzhou Airport. In 1991, the contracted management responsibility system was adopted in the civil aviation sector, and the method of linking wages to output began to be used. The total amount of wages for 1989 was used as the base figure. Total wages would not increase if the number of workers should increase; and total wages would not decrease if the number of workers should decrease. But, in 1989, the Wenzhou Airport only existed in the form of a preparatory office, and did not have any output. The total-wage base figure based on the total wages of that time is obviously too low. In the two years since it came into operation, the shortage of personnel has been posing an increasingly serious problem, but, after so much time has passed, the problem has remained unsolved because of the total-wage limit.

Take also the example of distribution of gains. Since 1985, the state has followed the policy of distributing profits according to the ratio of one to nine with regard to the civil aviation sector. But, the results of calculations show that such has not been the case. According to the rules, the profits retained by civil aviation enterprises should be turned into four kinds of funds: funds for purchasing aircraft engines, production development funds, employee welfare funds, and employee bonus funds. However, a series of tax system reforms, instituted later, have taken away most of the civil aviation sector's income. Since 1985, the state has instituted as many as 14 taxes. Furthermore, there is also the newly instituted tax which has to be considered part of cost, and the policy of "making debt payments after paying taxes" has also been adopted. As a result, the part of profits taken away by the state is far larger than the part retained by the enterprises, resulting in unbearable burdens on enterprises.

The current contracting method is based on evaluating the performance of enterprises with different base figures by measuring increases as compared with base figures in the same way. Such a way of evaluating will not show the degree of efficiency, and would only whip the ox that runs faster than others, while protecting those

lagging behind. For instance, the Wenzhou Airport handled 600,000 passengers last year, but some airports of the same rank each handled only over 20,000 passengers. Some airports can overfulfill their targets by handling only a few thousand more passengers, but the Wenzhou Airport would have to increase the number of passengers by 120,000 in order to get the output wages representing a wage increase of the same percentage. This situation has serious adverse effects on the enthusiasm of front-line employees at the grassroots airports for overfulfilling production targets and for increasing revenues. Especially, the implementation of policies of "making debt payments after paying taxes" and "conducting contracting after paying taxes" will further weaken the civil aviation sector's capability to develop production, and suppress the civil aviation enterprises' vitality. It can be said that the civil aviation enterprises' predicaments lie in the potential crises of fund shortages and of inability to generate sustained development which are now hidden behind the facade of an unprecedentedly brisk market.

III. The Best Way of Getting Out of Predicaments That the Civil Aviation Enterprises Can Select

From a macroeconomic perspective, the state has decided to change the economic system from a system of planned economy to a system of market economy; in terms of policy, foreigners are now allowed to invest in airlines and airports, and airports can be run as joint ventures. Thus, it can be said that the direction has been determined, and that route has been opened. But, reform efforts often meet resistance when specific issues have to be tackled. This is easy to understand. The traditions and habits formed during the several decades when the civil aviation industry was under the supervision of the military will certainly constitute a huge obstacle to civil aviation reforms. In addition, the difficulty in carrying out civil aviation reforms also lies in the special nature of air transport. Many people would rather give up reform efforts, arguing that "human life is the most important thing." This has also added to the force hampering reforms.

To make the organizations engaged in civil aviation enterprises, it is imperative to introduce market principles; and the key to introducing market principles is to establish contract relationships. Recently, the State Council approved the "Report on the Overseas Investigation Tour of the Civil Aviation Investigation Group and on Several Ideas on Deepening the Reform of the Civil Aviation and Airport Management System." To provide support for the deepening civil aviation reforms, the state will also formulate the Aviation Law as soon as possible.

The Western countries' experience regarding civil aviation management is worth our consulting. Marx said that the steam engine and the joint-stock system were the two greatest inventions made by capitalist society. The joint-stock system has already produced prominent results in many industrial enterprises in China. Some believe that

it is not proper for civil aviation enterprises to employ the joint-stock system, arguing that as civil aviation enterprises tend to have huge amounts of assets, individuals would hold only a very small portion of the shares under the joint-stock system. Some others believe that China's civil aviation enterprises do not face the issue of intra-industry mergers.

In our view, the adoption of the joint-stock system is the best way to develop civil aviation enterprises in a big way. After the adoption of the joint-stock system, the interests of the shareholders will be tied up with the fate of the enterprises.

If airports are allowed to employ the joint-stock system, the Wenzhou Airport would be able to use gathered funds for providing integrated service, so as to create more accumulation. Wenzhou was one of the regions in China which took the lead in developing market economy. From the very beginning, the Wenzhou Airport has been giving emphasis to operating according to market principles. China's first case of a peasant running an air route, which has been contracted to him, on the basis of increasing the number of flights and the case of using the price lever to attract airlines so as to be able to benefit from their transport capacities are both concrete manifestations of market principles.

In our view, if market principles are not only written in the state's laws but also reflected in the business conduct of every manager of civil aviation enterprises, China's civil aviation industry will enter another phase of rapid development. (Written by staff reporter Zhou Jun; neither reviewed nor approved by Zhang Dezhi.)

Decisionmaking for Shanghai Subway Discussed

93CE06404 Shanghai XINWEN BAO in Chinese
27 May 93 p 1

[Article by reporter Bao Yujuan (7637 3768 1227): "Shanghai Metro—An Example of Foreign Investment Attracted by a Major Project"]

[Text] It is exciting to learn that the southern section of the No. 1 Line of the Shanghai Metro will soon begin operation. This project, which the Shanghai people have longed for more than 30 years and which Soviet experts in the 1950's described as impractical as "drilling a hole in a piece of bean curd," has eventually been completed by Shanghai builders in the 1990's. Moreover, it is rated as a first-class subway in the world. Seeing this, how can we hold our pride?

An "Economic Whirlwind" Rises in the World

For a long time, the Shanghai Metro remained a "paper project," the key question being lack of funds. The reform and opening drive enlightened the Shanghai people. They no longer waited for the central financial authorities to "cut and apportion the cake"; instead, they opened a door to the outside world for economic and

trade cooperation. But how could they get the most-favorable-terms loans and the most advanced technology from abroad for the Shanghai Metro project? The competent leadership of the Municipal Foreign Economic Relations and Trade Commission suggested a "hodge-podge" method, that is, seeking multinational government loans. This suggestion was accepted by high-level policymakers. After an analysis of the international subway market, it was decided to take advantage of the worldwide saturation-bound market situation to get the best offer by following the international practice of inviting bids through fair competition. Since 1985, Shanghai had announced through various kinds of media that it had decided to build a subway and had obtained approval from the central authorities to use foreign capital and technology. The first-phase project required an investment of \$680 million, using half for buying advanced equipment from abroad. The announcement also stipulated that foreign companies wishing to bid should get loans from their respective governments for the Chinese Government to use in buying the equipment. At that time, several big cities, including Guangzhou, Nanjing, and Hangzhou, were also planning to build subways. The prospects of large purchases and the tremendous market potential in China excited the enterprises, consortiums, and governments of Western developed countries. In their eyes, the Shanghai Metro project was "an epochal contract." So they vied to capture it as a commanding point in exploiting China's subway markets. Since February 1986, on three different occasions, Shanghai had solicited quotations from foreign suppliers for equipment for its No. 1 Subway Line. This drew enthusiastic responses from Western developed countries. The Metro Group in Great Britain and Telafa in France submitted quotations by teaming up with related enterprises in their respective countries. The Soviet Union, which had not disintegrated yet, also participated in the competition by offering equipment through barter trade. Even the United States, which had never given out government loans, offered to provide a certain amount of gratuitous funds so as to enable U.S. enterprises to compete with others on a fair basis. In 1987, the international competition became white-hot. The Dehu Group, though a late comer, was full of confidence. It proclaimed that it would not give miss the chance to catch the "last bus." This Shanghai "economic whirlwind" swept over 15 economically developed countries and regions in the world, including Japan, Italy, Canada, Denmark, Australia, and Hong Kong. As many as 42 groups and 56 enterprises took part in this global competition.

International Links Formed To "Make Foreign Things Serve China"

Since the Shanghai Metro project required economic and technological cooperation with foreign countries, international links must be established. In accordance with the Shanghai Municipal government's instruction, the Foreign Economic Relations and Trade Commission organized a joint foreign affairs work team to use the

service of a number of open-minded pragmatic workers who were in the prime of life and had practical experience in foreign affairs. An example was Dr. Zhang Xiang, vice chairman of the Municipal Foreign Economic Relations and Trade Commission, who was in charge of the team. Having studied, lived, and worked for many years in the United States and with practical experience in international economic and technological cooperation, he offered quite a number of valuable suggestions. In negotiating foreign funds and technology and in dealing with trade matters, new questions arose one after another. All these required a high degree of wisdom and resolve in making decisions. For instance, once there were different opinions about hiring "foreign advisers." Some thought that this was a waste of money, but the work team believed that it was worth the money to hire them. This, the work team held, was not only necessary according to the international practice, but would make it possible to utilize foreign brains and experience. After listening to the opinions of both sides and weighing the pros and cons, the municipal government leadership made the following decision: while asking the Shanghai Investment Corporation and Shanghai Joint Trading Corporation to act as consultants and agents in dealing with foreign companies and the Shanghai branch of the Bank of China as financial adviser, arrangements should be made to hire Delukasai and other foreign companies as advisers for the first-phase project. The foreign advisers should start making economic evaluations of equipment quotations from various countries. In cooperating with foreign experts, the Shanghai people not only acquired a large amount of information about the international subway market, but also learned the scientific methodology, including the price-comparison methods and project-management techniques adopted by large projects in the world. For example, through cooperation with the U.S. company Morgan Guaranty Trust, they learned to use, for the first time, the NPV evaluation method, which relies mainly on quantitative analyses. They used computers to make comprehensive evaluations of funds, technology, and prices and thus avoided subjectivity and one-sidedness in making decisions. They also attempted, for the first time, the method of combining business and financing negotiations instead of the past practice of selecting the loan-lending countries first and negotiating equipment imports later. The new method stimulated competition and enabled them to get the best terms on loans, technology and prices. As a result of competitive bidding and scientific evaluations, they decided to use multinational loans and import equipment from more than one country for the Shanghai Metro project. Germany's offer, which raised the proportion of its soft loan to 100 percent, was the best among all offers. AEG, Siemens, and Duwag offered to supply the most advanced rolling stock at the lowest price along with other favorable terms. This not only enabled the Dehu Group to catch the "last bus," but put it in the No. 1 position among the successful bidders. The United States and France were also chosen as suppliers because of the favorable terms of

their government loans and the advanced signal, fire-protection, and shield-structure equipment they offered. Altogether, loans totaling some \$300 million were obtained in connection with the No. 1 Line's purchase contracts. Jiang Zemin, then mayor of Shanghai, said: We have learned the soft science of decision making.

The Most Beautiful "Picture" Painted by a Great Master

Construction of a subway is a complicated systems engineering project. This is especially so if it is a first-rate subway in the world. The Shanghai Metro project not only received great attention and immense support from the central authorities, but was backed by the local government, which mobilized all forces to support it. Building the subway was no longer a task of the Shanghai Metro Company, but involved the Planning Commission, Capital Construction Commission, and the Foreign Economic Relations and Trade Commission of the municipality. The Shanghai Investment Corporation, Shanghai Joint Trading Corporation, Bank of China, and Jiushi Company all played an active role. Also joining the task were departments of construction, designs, machine-building, electric appliances, power supply, telecommunications, fire protection, foreign trade, and legal affairs. As many as four evaluation and examination meetings were held by experts at home. This epochal project, a crystallization of Chinese wisdom and foreign experience, deserves to be called a great undertaking. Dr. Hans from Germany had cerebral hemorrhage while he was in Shanghai. After all-out emergency treatment and careful nursing, he quickly recovered. The layout plan he made for the Meilong area based on the local topographic condition solved a problem that the domestic design units had long been unable to tackle. This provided a precondition for the present trial operation of the southern section. In technological and business negotiations, he often offered advice to protect the interests of the Chinese side according to the contract. "I got my third life in Shanghai," he said. "I should contribute to the Shanghai Metro project." Members of the work team, who have matured through doing practical work, are especially patriotic. They did not copy foreign models mechanically. Instead, they acted on the basis of their observations overseas, the experience and information they gained through cooperation with foreign experts, and the actual conditions in our own country. In this way, they made foreign things serve China. For example, experience in building Hong Kong's subway shows that if the outside of the subway cars is not painted, they are easy to get dirty, and it is very hard to keep their clean appearance. In the negotiations, they insisted on the inclusion of a clause in the contract about painting. Through arduous but friendly negotiations, the two sides finally compromised with each other and reached a mutual understanding. The German side not only accepted the painting clause, but cut the price from 4 to 1.5 million marks. With regard to the operational control equipment, the German and U.S. suppliers submitted a joint quotation of 30 million

marks. Based on the market information on hand, our side negotiated strenuously with them and finally cut the price in half. Examples of this kind are too numerous to cite. To sum up, this huge project, which amassed enormous forces at home and abroad, has achieved unexpected success. The central leadership believes that the loans Shanghai obtained are the best foreign government loans that China has ever received. Thanks to the efforts of all sectors, Shanghai has got the best price for its subway equipment, which incorporates the advanced technology of the late 1980's. And, in the quickest way, it has turned its wish into reality. The new Shanghai Metro has remote control devices, and the trains can run without drivers. When the train goes down a slope, the engine not only consumes no electricity, but some energy can be recovered. The cars have an extra large capacity, and the air-conditioning equipment keeps the inside comfortable all year round. All these are, indeed, enchanting.

In addition, a lot of international business workers have emerged with the construction of the Shanghai Metro project. Many workers experienced in negotiations with foreigners in the financing, technical, and business fields have been recruited by the Guangzhou Metro Corporation as advisers. What is more, a number of foreign firms are asking Shanghai to cooperate with them in contracting subway projects abroad. The Shanghai dragon has begun dancing. It is marching proudly to the world in big strides.

AGRICULTURE

Helping Peasants Move to Market Economy

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[Article by Lu Lianhua (7120 6647 5478) and Zhou Zhenghua (6650 2973 5478): "Problems Affecting the Peasants Moving Toward a Market System; Some Suggestions"]

[Text] Today, helping the peasants move toward a market system has become a hot topic among those who work in the countryside.

This being the case, what are the factors that restrict peasants from moving toward a market system?

The first problem is this: the general quality is not up to what is needed; the peasants' quality must be improved in many ways.

The insufficient quality of peasants today is due chiefly to the reasons given below: first, they have a low level of education. According to the fourth census, the national illiteracy rate is 15.8 percent. It is 17.23 percent in Jiangsu Province, where the total societal product output value, the gross industrial and agricultural output value, and the gross national product output value always rank first in the nation. Moreover, the illiteracy rate of

Jiangsu peasant workers is 40.48 percent. The educational level of workers in agriculture, forestry, animal husbandry, and fisheries is far lower than for those in other industries. Second, the small farmer idea is strong. Because peasants have been confined for a long time by the idea of self-sufficient small farming, their thinking is conservative; they are satisfied with warm clothing and full stomachs and grow only one crop. They plant just from their experiences, and are afraid of taking risks. Third, they are slow to change their views. For a long time, the peasants have been heavily reliant on government, especially in the economically backward areas. "Wait, rely, and request" is deeply rooted in the peasants' thinking. Therefore, we should begin by changing their thinking as well as their cultural and technical quality in order to improve their overall quality, looking at this as a foundation project for developing a national market economy.

The second problem is this: the market situation is inappropriate. We must build markets through multiple administrative levels.

At present, this is the general situation for rural markets: first, the total number of these markets is small. By the end of 1992, out of a total of 79,188 urban and rural trade markets, there were only 1,858 wholesale markets for agricultural products and byproducts, only 2.35 percent of the total; among these, 876 were wholesale vegetable markets, an average of less than one market per county. Second, there is an imbalance. There are more markets in the southeastern coastal area than in central and western China. The markets built in the coastal area characteristically are multilevel, multifunctional, and networked, while those in the central and western regions have only just begun to develop. Third, development has been slow. There is a process to constructing markets, but in some localities the leadership pays attention only to developing visible large scale markets while giving insufficient attention to guiding invisible and small scale markets. In addition, they excessively "control, obstruct, and pressure" those markets which were self-developed or built independently of administrative bodies. So there exist such situations as "stress billing, but not service; stress control, but not guidance" resulting in a lack of freedom for those markets which started up outside of any department. Fourth, intermediary and administrative organizations are imperfect.

So, our initial step should be a program to develop markets progressively. Second, start with resources, with a focus on building these markets. We must have a plan to build a group of agricultural wholesale markets of higher grade and larger scope according to the characteristics of local agricultural products and byproducts. We should devote ourselves to developing a deep processing industry for high, refined, and pick-of-the-crop farm products, trying to develop and build up agricultural sales markets for intermediate products which will cause primary processing to rise in value by collecting and distributing local agricultural products and byproducts.

Third, begin through standardization to strengthen the building of market rules and laws. Fourth, begin through leadership to develop a large number of intermediary organizations to interconnect the markets.

The third problem is the imperfection of our information service systems; these must be strengthened and agricultural information standardized.

Because the social services system is imperfect, information which is lacking, inaccurate, or dated often creates serious losses for the peasants. At present, many peasants make planting decisions based solely on conversations among themselves. Concerned government departments often publish planting information for farm products and byproducts after the peasants have prepared their seeds and means of agricultural production, too late for adjustment of planting plans.

Therefore, we should first set up an authoritative agricultural marketing information service system. Led by the government and coordinated by the various relevant departments, it will be responsible for the collection, processing, development, and application of information. Then we must accelerate the pace of disseminating agricultural market information. We must furnish such information as demand and pricing for both domestic and international agricultural markets, and advanced information on new and new agricultural varieties, supervising peasants in adjusting their product mix, to planting varieties which will be of high quality and benefits.

The fourth problem is the risk system, which is unsuitable for leading the peasants into the markets; we must develop a risk insurance system in China.

The greater risks involved in agricultural production make it urgent that we perfect a risk insurance system. In the past, the only risks for peasants lay in contracting for the use of their fields. Now, they have the risks of market competition. At present there is a low level of insurance on farm products, especially grain products. It is also only about 1 to 3 percent in the animal husbandry and aquatic products industries; this is highly unsuitable to the insurance needs of a market economy. Agricultural product purchasing departments which were established under the planned economy system, especially grain concerns, are being pulled into the markets along with

the peasants. Because they are both seeking the benefits of their operations, the profit contradiction between agricultural producers and operators is outstanding.

Therefore, we should establish safeguards against agricultural risks. Statistics show that in markets which are absolutely free to adjust, if a farm product shows a 5 percent surplus, the price will automatically drop by 50 percent. So, the first step is to perfect a foundation of protective funds for the agricultural industry. We must implement, as rapidly as possible, a national foundation system of protection for farm products. Whenever farm products are in sudden short supply, endangering the profits of producers and consumers, there should be prompt adjustment. Next, we should conscientiously implement policies which provide the lowest price protection for farm products. When the market prices for farm products fall lower than the lowest protected price, they should be purchased by the main supervising department and units for farm products operation at the lowest protected price in order to reduce the risk to peasants induced by market fluctuations. In addition, we should do our utmost to stabilize farm product storage, implementing massive multilevel storage facilities for agricultural byproducts which are relevant to the state's plan and the people's livelihood, so that years of harvest and loss will be mutually compensating, with adjustments for surpluses and shortages. Second, we must strengthen agricultural social insurance. Through some charges to the people, some subsidies from collective organizations, and some allowances from the state, we can continue to broaden the scope of farm product insurance and perfect the social insurance system. Third, we should activate multichannel circulation. For any farm products which are introduced freely by the state, there should be encouragement for state, collective, individual, and privately-operated ownership to enter the market together, breaking through the blockades. The main operative bodies for farm products should learn even better how to use the contract form in their dealings with the peasants, in order to step up the pace of the purchase and sale contract system. We must improve our coordination of production, distribution, and sales, led on the one hand by national and international markets responsible to the consumer, while on the other hand linking hundreds of thousands of households through economic contracts, out of consideration for the peasants.

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